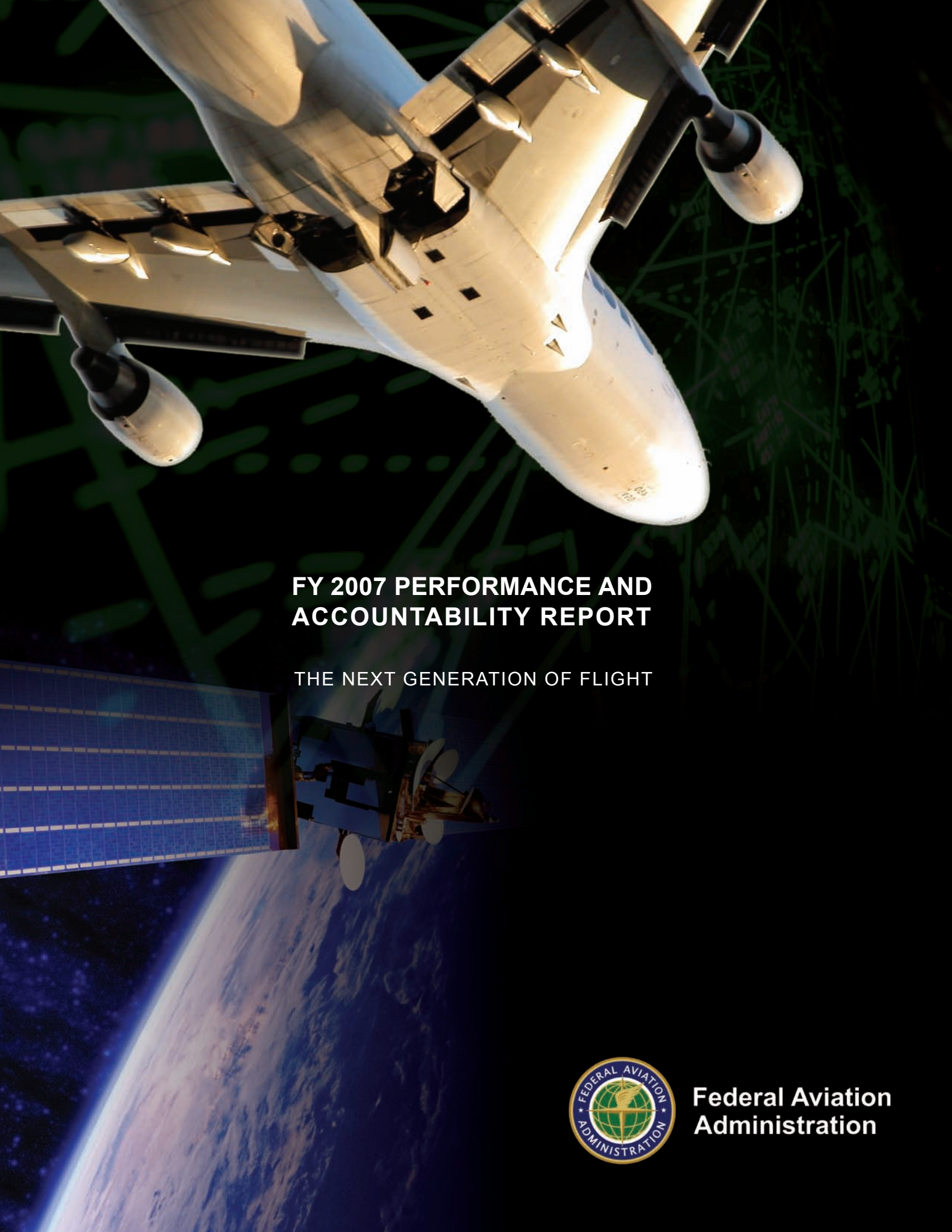


FY 2007 PERFORMANCE AND ACCOUNTABILITY REPORT

THE NEXT GENERATION OF FLIGHT

Federal Aviation Administration

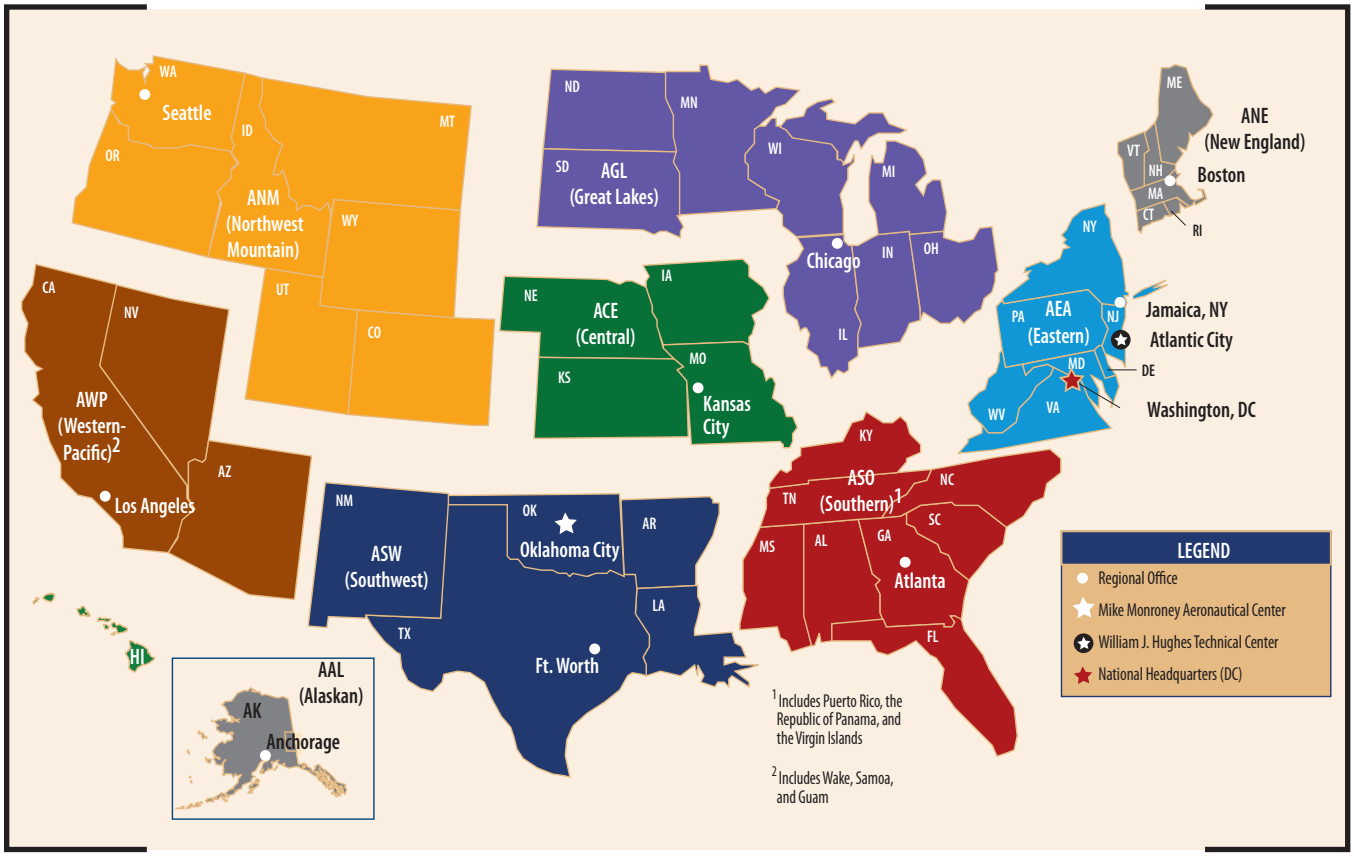
State-of-the-art air traffic control towers, like this one at Hartsfield-Jackson Atlanta International Airport, are helping air traffic controllers better guide current air traffic as well as accommodate future growth, making the safest aviation system even safer.
Credit: Greg Haire, Airway Transportation System Specialist, Technical Operations, Hartsfield-Jackson Atlanta International Airport

On the Cover—Credit: FAA Image Library; Getty Images

FEDERAL AVIATION ADMINISTRATION

FY 2007 Performance and Accountability Report

FEDERAL AVIATION ADMINISTRATION REGIONAL MAP



MISSION

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

VISION

To improve continuously the safety and efficiency of aviation, while being responsive to our customers and accountable to the public.

VALUES

Safety is our passion. We are world leaders in aerospace safety.

Quality is our trademark. We serve our country, our customers, and each other.

Integrity is our character. We do the right thing, even if no one is looking.

People are our strength. We treat each other as we want to be treated.

FAA AT A GLANCE

Established	**1958**
Headquarters	**800 Independence Avenue, SW Washington, DC 20591**
	www.faa.gov
FY 2007 Budget (enacted)	**$14.537 billion**
Total Employees	**45,416**
Headquarters	**5,465 employees**
Regional and Field Offices	**35,416 employees**
Technical Center *Atlantic City, NJ*	**1,089 employees**
Aeronautical Center *Oklahoma City, OK*	**3,446 employees**
FY 2007 Passengers on U.S. Carriers	**763.5 million (*estimate)***
FY 2007 Tower Operations	**61 million arrivals and departures (*estimate*)**

An aircraft departing from Miami International Airport turns to avoid severe weather. Adverse weather conditions throughout the national airspace system, combined with air traffic volume, were major contributing factors to the increase in airport delays this year.
Credit: Jon Ross, FAA Image Library

FOREWORD

The Federal Aviation Administration (FAA) is part of the Department of Transportation (DOT). By directives, the Office of Management and Budget (OMB), which implements the Chief Financial Officers Act of 1990 (CFO Act), requires us to prepare financial statements separate from those of DOT. FAA is not required to prepare a separate Performance and Accountability Report (PAR). Instead, key FAA data and information are provided to DOT and consolidated into the required DOT PAR.

We recognize, however, that to demonstrate accountability, we should present performance, management, and financial information using the same statutory and guidance framework. To demonstrate that accountability, for the past 10 years we have elected to produce our own PAR. In some cases, however, we may depart from the format required of CFO Act agencies.

Despite the qualified opinion on our FY 2006 financial statements, the Association of Government Accountants (AGA) commended us on a well-organized, succinct, readable, easy to understand, and informative report. AGA praised us for acknowledging the qualification and candidly explaining the cause and the actions we would take to address the matter. As this year's report details, we strived to correct the issue and are pleased to report that our auditors have issued a revised opinion, which is unqualified, on our FY 2006 restated financial statements. In addition, we received an unqualified opinion on our FY 2007 financial statements.

We will continue our efforts to become a more results-oriented organization, focus on performance and financial accountability, and do our part to help DOT and the Federal Government excel in providing high-quality services and products to the taxpayers we serve.

As new technologies take over routine controller tasks and become more responsible for predicting problems in the airspace, controller productivity will continue to increase. In FY 2007, the implementation of automated technologies resulted in a cost avoidance of approximately $9.9 million, keeping FAA on track to achieve cost efficiencies of 10% in controller staff costs by FY 2010.
Credit: FAA Image Library

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

We have a system composed of more than 67,000 facilities and pieces of equipment with FAA-operated or contract towers at almost 500 airports, including this one at Lubbock Preston Smith International Airport in Lubbock, Texas.
Credit: Jody B. Smyers, FAA Image Library

A MESSAGE FROM THE ADMINISTRATOR

Robert A. Sturgell
Acting Administrator

Aviation has never been busier. Without a doubt, this is the most exciting, dynamic, and challenging period in FAA history. Passenger traffic exceeds pre-9/11 levels at most of the nation's top airports. Passenger totals are headed up: They're expected to more than double in the next decade. Commercial aviation will be flying more than a billion passengers by 2015.

The planes that dot our skies are changing as well. Smaller business jets fly in record numbers. Commercial industries are looking to unmanned aircraft as a part of daily business.

But there's a catch to all of this. Air travel can grow only if aviation capacity grows with it. FAA is ahead of this curve, with the launch of the next generation air transportation system (NextGen) well under way. NextGen is designed to handle up to three times the traffic load of what we see today, and it will handle it efficiently. In a nutshell, NextGen transitions us from the 1960's era ground-based system of radar into satellite-based air traffic management.

As you will read in this report, we are determined to meet the increased demands on our airspace and ensure travelers get to their destinations with minimal delays without compromising safety. To do this, we are transforming our airspace through the most radical technological changes FAA has ever experienced. It is not an easy task, but it is one to which all 45,416 men and women of the FAA are fully committed.

FY 2007 ACCOMPLISHMENTS

- ***NextGen.*** The opening stages of transformation to NextGen lay the groundwork for developing a system that will be safer, able to meet growing demand, and responsive to evolving business models. The new system will integrate satellite-based navigation, surveillance, and networking. This year, the FAA's Joint Planning and Development Office (JPDO) completed NextGen's three planning documents that will guide us through the next 15 years and beyond. We also created a partnership of FAA executives and a new executive-level position to guide the implementation of the NextGen plan.
- ***Flight Plan Goals.*** We made significant progress in achieving the four goals detailed in our strategic plan—the *FAA Flight Plan*: ensuring safety, increasing capacity, demonstrating international leadership, and achieving organizational excellence. All of these achievements play an integral role in our efforts to implement NextGen.

- ***Safety.*** Over the past 5 years, we have achieved the highest safety standards in the history of aviation. Even so, our goal is—as always—to continue to improve safety. The number of general aviation fatal accidents is below our not-to-exceed ceiling again this year, ending at 314 fatal accidents. While aviation accidents in Alaska decreased 9% from the past fiscal year, we had 10 fatal accidents: 4 in Part 135 (commuter and on-demand operations) and 6 in general aviation.

- ***Capacity.*** FY 2007 saw a 6% increase in National Airspace System (NAS)-related flight delays over last year, an indicator that the system is rapidly reaching critical mass. Capital projects, including the opening of two runways and an innovative new type of taxiway, have expanded capacity at three of the nation's busiest airports.

- ***International Leadership.*** Collaboration with aviation authorities throughout the world is essential to shaping a seamless global aerospace system. We gained approval to open an office in Brazil, our first office in Latin America in 10 years. We also hired new senior representatives to lead offices in Abu Dhabi, Moscow, and Dakar. We signed cooperative agreements with several key nations across the world, which will allow us to spur acceptance of NextGen technologies.

- ***Organizational Excellence.*** We continue to transform business practices to improve efficiency throughout the agency. New initiatives this year resulted in $82 million in cost efficiencies. Consolidation of our financial accounting and workers' compensation functions resulted in over $20 million in cost efficiencies.

  Our workplace and our workforce are changing, and we must be robust and flexible enough to compete for and retain qualified, high quality employees. We had success recruiting diverse applicants for Air Traffic Controller and Aviation Safety Inspector positions by posting classified ads on MySpace.com, Monster.com, CareerBuilder.com, and Craigslist.com; advertising in newspapers and on the radio; and reaching out to students at more than 800 colleges and universities.

  Our *Performance and Accountability Highlights* received a fourth consecutive award from the League of American Communications Professionals. The award recognizes our FY 2006 publication as one of the top annual reports in North America.

FUTURE CHALLENGES

The accomplishments of this year have created a waterline, a benchmark for performance that must be exceeded. We will use this philosophy as a driving force as we move forward to conquer the many challenges we face in FY 2008 and beyond.

- ***Safety.*** Safety is our first priority. With the push for greater capacity, we must continue our efforts to meet and surpass our safety goals and urge the aviation industry not to lose sight of their safety improvement efforts.

- ***NextGen.*** We must ensure our NextGen system is harmonized, interoperable, and compatible with countries and regions throughout the world; continue to prepare FAA employees for the radical changes NextGen will bring to their jobs; and keep our eye on the final goal to meet capacity demands without sacrificing safety. With long lead times for NextGen initiatives, complex and costly systems, and interdependent elements, it is imperative that we stay on our planned course.

- ***Financing of NextGen.*** We need adequate funding to pay for NextGen's long-term capital investments. To ensure this, we must create a stable, cost-based, and equitable revenue stream based on actual services provided, rather than rely on an unpredictable and unstable system funded through a tax on airline ticket prices.
- ***Environment.*** We must push to work together with other countries as an international team to address aviation's role in reducing greenhouse gas emissions.
- ***Controller Retirement.*** To address the expected swell of controller retirements over the next decade, we must continue our efforts to recruit, hire, and retain qualified staff for these positions.

Our *FY 2007 Performance and Accountability Report* provides a detailed accounting of our service to both the flying public and the aviation industry. We achieved 24 out of 30 goals listed in the *Flight Plan*.

In FY 2006, we received a qualified opinion on our financial statements related to the accuracy of our Construction in Progress (CIP) balance. We also received a related material weakness in FY 2006 for lack of supporting documentation and a need to strengthen policies and procedures in the capitalization process. After an intensive, year-long effort to review and document the CIP balance, improve policies and procedures, and restate our FY 2006 financial statements, I am pleased to report that the auditors have issued a revised opinion—now unqualified—on our restated FY 2006 financial statements.

In addition, we received an unqualified opinion on our FY 2007 financial statements. However, we incurred a material weakness related to the timely processing of transactions and accounting of Property, Plant, and Equipment, including the CIP account. To address this weakness, we have restructured roles and responsibilities and reallocated resources to make additional improvements to our capitalization processes. The new organizational change will enable more accountability and transparency in the capitalization process and enable us to keep our CIP balance current and accurate.

As this report makes clear, our goal is to provide a safe, secure, and efficient global aerospace system. We maintain a steadfast commitment to efficiency and integrity. We will ensure that FAA is prepared to handle the challenges of the next generation of flight and to continue to deliver an exceptional return on investment for the American taxpayer.

Robert A. Sturgell
Acting Administrator
November 5, 2007

Every day, FAA safely guides approximately 60,000 flights through the world's preeminent National Airspace System (NAS).
Credit: Jon Ross, FAA Image Library

FAA ORGANIZATION

The mission of the Federal Aviation Administration (FAA), an agency of the U.S. Department of Transportation (DOT), is to provide the safest, most efficient aerospace system in the world. FAA provides air traffic control services, establishes and enforces regulations, and oversees inspections that maintain the integrity and reliability of that system, which has fueled our economy and helped ensure our nation's prosperity for 50 years.

We operate 24 hours a day, 7 days a week, 365 days a year. We have a system composed of more than 67,000 facilities and pieces of equipment with FAA-operated or contract towers at almost 500 airports, and we are responsible for inspecting and certifying about 240,000 aircraft and 585,000 pilots. With almost 7,000 takeoffs and landings per hour, and more than 760 million passengers and 40 billion cargo revenue ton miles of freight a year, we safely guide approximately 60,000 flights through the world's preeminent National Air Space (NAS) every day.

We fulfill our mission through four lines of business that work together to create, operate, and maintain the NAS. These lines of business are

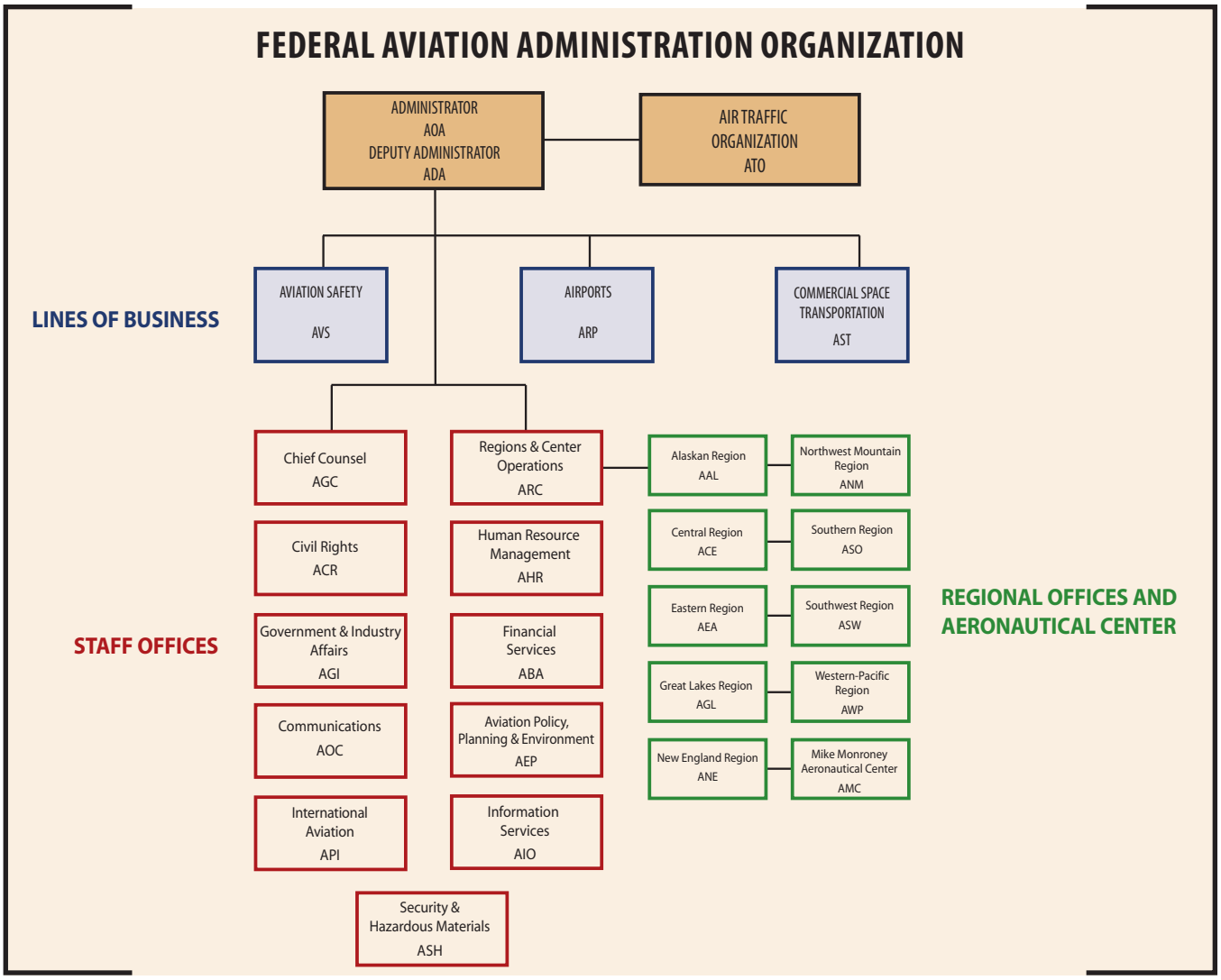
- ***Air Traffic Organization (ATO):*** Responsible for moving air traffic safely and efficiently. The customers of this performance-based organization are commercial, private, and military aviation. ATO is aligned around the services delivered to these customers. Approximately 34,000 ATO employees provide these services—the controllers, technicians, engineers, researchers, and support and management personnel whose daily efforts keep aircraft moving.
- ***Aviation Safety (AVS):*** Oversees the safety of aircraft and the credentials and competency of pilots and mechanics, develops mandatory safety rules, and sets the standards that have helped make air travel one of the safest modes of transportation in history.
- ***Airports (ARP):*** Provides leadership in planning and developing a safe, secure, and efficient airport system; manages the Airport Improvement Program (AIP), which provides grants to state and local governments; enhances environmental quality related to airport development; develops standards for the design and construction of airport facilities; and establishes regulations for the safe operation of commercial service airports and inspects airports for compliance.
- ***Commercial Space Transportation (AST):*** Oversees the safety of commercial space launches; regulates the U.S. commercial space industry, including human space flight; and encourages, facilitates, and promotes U.S. commercial space transportation.

From 1926, when President Calvin Coolidge initiated Federal oversight of air safety in the United States by signing the Air Commerce Act, to the creation of the Federal Aviation Agency in 1958, to our modern-day incarnation, FAA and the aviation community have grown and worked together. We have shaped an industry that—like shipping and rail before it—conquered distance in a new way, lowered transportation costs, and created new opportunities that transformed the commercial landscape.

Today's FAA faces the challenge of expanding the capacity of our aviation system to meet future demand without compromising safety or harming our environment. With aviation and related industries supporting 11 million jobs and contributing $640 million to our annual economy, our success is critical.

A YEAR IN HIGHLIGHTS

Our workforce of 45,416 professionals operates and maintains the most complex air traffic control system in the world with an annual budget of approximately $14.5 billion. More than half of the world's air traffic is managed by 14,874 controllers, who ensure ever-increasing levels of safety. We conduct research to improve aviation safety and efficiency and provide grants to improve 3,364 eligible public-use airports in the United States. FAA also regulates commercial space launch activities to ensure public safety.



FAA achieved a number of significant accomplishments in FY 2007.

NextGen Accomplishments

Planning and implementation of NextGen is critical to the transformation of the NAS. The Joint Planning and Development Office (JPDO), a multi-agency taskforce charged with developing the NextGen vision, completed three vital NextGen documents—the Concept of Operations (ConOps), the Enterprise Architecture, and the Integrated Workplan. These documents explain and guide future research and the capital investments needed to transform our air transportation system. The ConOps is a technical document that describes how NextGen will work from an operational standpoint and what it will look like in the year 2025; the Enterprise Architecture is a blueprint for NextGen that describes how its systems will work together in 2025; and the Integrated Workplan is the plan and timeline for the completion of work, by all agencies, to implement NextGen.

Each member agency of the JPDO—FAA, Department of Transportation, Department of Defense, Department of Commerce, Department of Homeland Security, National Aeronautics and Space Administration (NASA), and the White House Office of Science and Technology Policy—has responsibility for sections of the overall Integrated Workplan. To ensure implementation of FAA's commitments and that all employees understand and are committed to NextGen, we created the Operational Evolution Partnership (OEP) and a new senior executive position to lead it. All lines

of business have a representative on the OEP who commits his/her organization to fulfilling its role in NextGen implementation and to ensuring cross-agency coordination. The OEP plan aligns to the long-term view of the NextGen ConOps and focuses on core commitments, prototypes, pilot projects and activities awaiting policy decisions, as well as research and development activities. Currently, the plan focuses on solutions for the mid-term years of 2012–2018 in three key transformational areas:

- ***Airport Development*** focuses on tracking new airport surface infrastructure that provides significant capacity increases such as new runways, runway extensions, and taxiways at high traffic airports. It also includes projects in planning and environmental assessment phases.
- ***Air Traffic Operations*** focuses on new operational capabilities, presenting a big picture view of the interdependencies of key enabling programs and technologies.
- ***Aircraft and Operator Requirements*** will help aircraft operators make informed equipage decisions by developing a common view of avionics requirements and timelines to provide the operational capabilities demanded by NextGen. The avionics requirements will include communications, navigation and surveillance capabilities, and refined weather equipment and displays.

The OEP is also a conduit for sharing information and ideas with oversight organizations and, in particular, with the aviation community. Airlines, cargo carriers, airports, manufacturers, business and general aviation pilots, and industry must understand what is coming, and when, to prepare themselves to participate in NextGen.

In FY 2007, we furthered the implementation of two critical NextGen technologies: Automatic Dependent Surveillance–Broadcast (ADS-B) and System Wide Information Management (SWIM).

ADS-B—THE BACKBONE OF THE NEXT GENERATION AIR TRANSPORTATION SYSTEM (NEXTGEN)

After years of research and development, FAA is ready to make Automatic Dependent Surveillance–Broadcast (ADS-B), one of the most crucial components of NextGen, operational throughout the National Airspace System (NAS). General aviation pilots have been using ADS-B in Alaska and the Ohio River Valley since 2000.

ADS-B's implementation will turn the NextGen vision into reality by enabling the aviation industry to move to a new surveillance system that uses Global Positioning System (GPS) satellites. The new satellite-based system updates information every second. The current system, which uses 1950's radar technology, only updates every 3 to 12 seconds. Some companies already using ADS-B in their operations, such as UPS, are realizing savings in jet fuel and faster delivery schedules.

Pilots can use cockpit ADS-B displays to view their real-time position relative to other aircraft, bad weather, and terrain.
Credit: FAA Image Library

With ADS-B, both pilots and controllers will see the same radar-like displays with highly accurate traffic data from satellites. These displays update in real time and do not degrade with distance or terrain. The system will also give pilots access to weather services, terrain maps, and flight information services. With the improved situational awareness it provides, pilots will be able to fly at safe distances from one another with less assistance from air traffic controllers.

The gains in safety, capacity, and efficiency resulting from the move to a satellite-based system will enable FAA to meet the tremendous growth in air traffic predicted for coming decades while reducing the cost of the infrastructure needed to operate the NAS. Specifically, ADS-B will provide surveillance for remote or inhospitable areas that do not currently have coverage by radar; allow for reduced separation and greater predictability in departure and arrival times; and support common separation standards, both horizontal and vertical, for all classes of airspace. It also will improve the ability of airlines to manage traffic and aircraft fleets and to plan arrivals and departures far in advance. Because ADS-B is a flexible and expandable platform, it will change and grow with the evolving aviation system.

INNOVATIVE TAXIWAY INCREASES SAFETY AND CAPACITY

Atlanta's Hartsfield-Jackson International Airport, dubbed the "world's busiest airport," welcomed the opening of the first FAA-approved end-around taxiway in April 2007. The only other country in the world to have one of these taxiways is Germany. These innovative taxiways allow arriving planes to avoid crossing runways on their way to terminals. Instead, crews taxi to the end of the runway and then follow the taxiway to the gate area.

Atlanta's new end-around taxiway allows arriving and departing planes to avoid runway crossings, enhancing safety and efficiency.
Credit: Deirdre L. Thompson, Hartsfield-Jackson Atlanta International Airport

The $42.5 million project at Atlanta is already having a significant safety impact by eliminating approximately 600 runway crossings per day. Such crossings are a leading cause of runway incursions. The taxiway also is decreasing delays, because incoming planes don't need to stop and receive clearance to cross a runway to get to the midfield terminal area.

Besides the obvious safety and timesaving benefits this produces, Jeffrey Vincent, Acting Air Traffic Manager at Hartsfield, said the addition is a wonderful tool that is significantly reducing the complexity of controllers' jobs. "Before the new taxiway, there was always a chance of miscommunication between controllers and pilots when clearing a plane to move across the runway," he said. "The new taxiway eliminates the need to make sure the runway is clear. Arriving planes can just land and follow the taxiway without crossing other planes' paths."

Dallas-Fort Worth International Airport began work on a similar taxiway in fall 2006, and it is expected to open sometime next year.

—Adapted from an article appearing in FocusFAA, FAA's employee news service.

- In August 2007, FAA approved a contract with ITT Corporation to provide ADS-B services. Under the contract, ITT will install, own, and maintain the ground infrastructure, while FAA pays for the surveillance and broadcast services. We issued a Notice of Proposed Rulemaking (NPRM) in October 2007 to mandate ADS-B avionics in the cockpit for controlled airspace and busy airports. (Learn more about ADS-B on page 7).

- We fully funded the development of SWIM, a networking-based initiative that is an essential part of NextGen's initial Network-Enabled Operations (NEO) capability and a high priority for the JPDO and the NextGen partner agencies. In an Internet-like fashion SWIM links information, such as aircraft position, weather, and restricted airspace notices, to all relevant users in the system. It moves information within FAA and to other Government agencies faster, better, and more economically and provides better data to more decision-makers—whether it be the controller, the pilot, or the other agencies dealing with security or national defense. Much like the World Wide Web revolutionized American commerce, SWIM lays the aviation information superhighway that will lead to dramatic improvements in air transportation safety, security, and capacity.

Capacity-building capital projects are necessary to meet today's growing passenger demand. In November 2006, a new runway at Boston Logan Airport was commissioned, providing delay reduction benefits. In April 2007, an innovative type of taxiway, known as an end-around taxiway, opened at Atlanta's Hartsfield-Jackson International Airport, eliminating about 600 runway crossings per day and thereby increasing the safety and efficiency of the busiest airport in the United States. (For more information on end-around taxiways, see the related article on this page). In FY 2008, the southside reconfiguration of Los Angeles International Airport will be completed. This reconfiguration includes relocation of a runway, which was completed in April 2007, and construction of a new centerfield taxiway to improve the airport's safety and efficiency.

Aviation is a global industry. NextGen technologies and concepts must be harmonized, interoperable, and compatible with other international systems. We are working with aviation officials from countries throughout the world to ensure this happens. We signed a formal agreement establishing a trilateral, cooperative NextGen strategy group with Canada and Mexico. This group will share information regarding strategic roadmaps, technologies, and environmental metrics, as well as coordinate North America's International Civil Aviation Organization (ICAO) harmonization efforts. We also created a new international program aimed at further reducing aviation's environmental impact. The Atlantic Interoperability Initiative to Reduce Emissions (AIRE), a scientific and research venture between FAA, the European Commission, and industry partners, will focus on upgrading air traffic control standards and procedures for trans-Atlantic flights. (See related story on this page.)

The expiration of the taxes that fuel the Airport and Airway Trust Fund (AATF) on September 30, 2007, presented us with an historic opportunity to transform the future of FAA and aviation. We spent 2 years developing a new financing proposal that would be in the long-term best interest of the traveling public, the aviation industry, FAA, and taxpayers. This new system would enable us to implement vital NextGen technologies in an expeditious manner over the next two decades while still operating and managing traffic growth within the current system. We are conducting broad outreach to the aviation community to explore funding options and will use that input to develop a system based on a stable, cost-based, and equitable revenue stream rather than on unpredictable ticket taxes. We presented reauthorization legislation to Congress in February stressing the vital link between its passage, the success of NextGen, and the well-being of our nation's economy. We are currently working with Congress to ensure timely passage of legislation to reauthorize FAA's programs and revenue sources.

Other Major Accomplishments

With the first private human space flights expected to take place in 2009, we issued regulations for crew and space flight passengers who want to experience this type of travel. The new rules maintain FAA's commitment to protect the safety of the uninvolved public and call for measures that enable passengers to make informed decisions about their personal safety.

Over the next decade, approximately 72% of the air traffic controller workforce will become eligible to retire. To meet the challenges of this wave of retirements and the increasing demand for air

MAKING THE BLUE SKIES GREENER

FAA, the European Commission, and industry partners have joined to form a new and unique international program to accelerate the development and use of environmentally friendly procedures to reduce emissions and noise. The Atlantic Interoperability Initiative to Reduce Emissions (AIRE), a scientific and research venture between these entities, will focus on upgrading air traffic control standards and procedures for trans-Atlantic flights to reduce aviation's carbon footprint on the environment. Demonstration flights will begin in FY 2008.

The scope of the AIRE initiative will involve every stage of flight from gate to gate, including surface operations, departures, en route, oceanic, and arrivals. Under the agreement, officials on both sides of the Atlantic are identifying work already underway in the United States and the European Union in each of those flight segments to better coordinate ongoing research. In the medium term, this cooperation may include joint trials. In the long term, FAA hopes this partnership will change aviation standards, help to make decisions on technology, and ensure that we minimize aviation's damage to the environment.

In addition to its research and development mission, AIRE will also make use of existing technology and best practices to reduce fuel used, noise, and carbon emissions. This could save as much as a ton of carbon dioxide per flight.

The AIRE partnership integrates goals of NextGen and the International Civil Aviation Organization (ICAO) by harnessing new technologies and capabilities to improve the environmental performance of the NAS and providing strategies for international harmonization. The environment is one of three key areas ICAO has identified as critical to the future of aviation, along with safety and security.

While this particular initiative is limited to the Atlantic region, efforts are underway for a similar partnership in the Pacific.

—Adapted from an article appearing in FocusFAA, FAA's employee news service.

FAA, NASA UNVEIL "SMART SKIES"

FAA and NASA formalized an educational partnership in May 2007 aimed at developing the next generation aviation and aerospace workforce. The partnership is part of FAA's 10-year controller workforce plan.

Northern Virginia middle schoolers apply math skills to controlling simulated air traffic control scenarios with the "Smart Skies" software jointly developed by NASA and FAA. *Credit:* FAA Image Library

"NASA and FAA share a common and critical goal of cultivating a diverse, qualified workforce that will develop, manage, and operate the next generation air traffic and transportation system," said Ruth Leverenz, FAA's assistant administrator for regions and center operations, at a kickoff ceremony at the Air Traffic Control System Command Center in Herndon, Va.

The partnership's first major achievement is an air traffic control simulation software package called "Smart Skies," an online simulator for fifth through ninth grade students that NASA and air traffic controllers at Oakland Center developed. Leverenz says Smart Skies provides a fun and exciting way for students to learn math while being exposed to high technology careers in aviation.

"Our aim is not just to launch planes," said Leverenz, "but to launch dreams."

—Adapted from an article appearing in FocusFAA, FAA's employee news service.

travel, we updated the *Air Traffic Controller Workforce Plan*, which provides a comprehensive strategy to make sure we have the right number of controllers in the right place at the right time. The plan calls for hiring and training more than 15,000 new air traffic controllers over the next 10 years.

We also are implementing creative strategies to recruit Air Traffic Controllers and Aviation Safety Specialists. We marketed employment opportunities at universities, military transition centers, state and local employment services, and Government recruitment centers. We've also used technology to expand our reach and have promoted the agency on MySpace, FaceBook, and CraigsList, as well as through newspaper and radio ads.

FAA achieved certification this year in managing the intergenerational workforce. In May, managers participated in a new leadership training program offered by the Office of Human Resources called "When Generations Collide." For the first time in American history, four generations—Traditionalists, Baby Boomers, GenXers, and Millennials—are all in the workplace together. This mixing of generations adds valuable diversity to the workforce, but it also can lead to conflicts and complications. By understanding their differences and recognizing generational clash points, FAA managers and supervisors will be able to leverage their strengths and weaknesses to lead more effectively, encourage collaboration, and improve employee satisfaction. Ultimately, this new understanding will allow the agency to recruit and retain a talented, diversified workforce.

Based on the results of public and employee surveys, we enhanced external and internal communications. We redesigned FAA's public and employee websites to make them more user friendly and to improve navigability. We introduced a daily employee online news update, which replaces a bi-weekly online newsletter. We also introduced HR Radio, a weekly 10-minute Intranet broadcast that details information about benefits and services. All have been positively received.

FAA's efforts over the past 4 years to operate more like a business have paid real dividends, not just to the flying public but to the taxpayer as well. By implementing improved management tools, including better cost accounting systems, and by instituting a pay-for-performance program, we have made more efficient use of our resources. We continue to improve business practices to help control costs and increase efficiency, as described in the section that follows.

INTEGRATING PERFORMANCE AND FINANCIAL INFORMATION

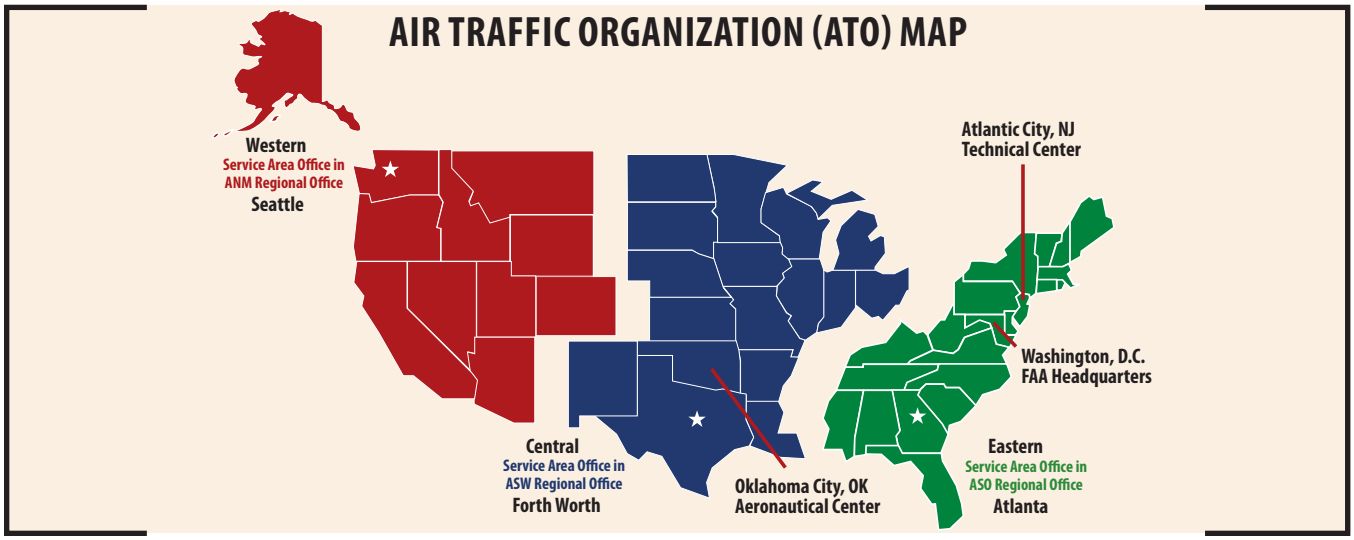
Efficiency and Cost-Effectiveness

Over the past several years, we have made significant progress in making cost control a priority throughout FAA. Since FY 2005, FAA has included a cost control target among the 30 major *Flight Plan* goals we track each month. As a result of this emphasis, part of the broader effort to operate more like a business, we have been able to achieve $150 million in recurring savings from efforts put in place in FY 2005 and 2006, as well as $82 million from efforts initiated during FY 2007.

Consolidation of Services and Facilities

We continue to consolidate staffing and facilities to capitalize on the synergies derived from cross-utilization of resources to reduce the unit cost of services. This effort also includes benefits derived from outsourcing services to obtain cost efficiencies.

- ***Workers' Compensation Consolidation.*** We completed the centralization of all staff responsible for workers' compensation-related efforts. As a result of the consolidation completed in December 2006, all claims are now handled through headquarters for an FY 2007 cost avoidance of approximately $20 million.
- ***Information Technology (IT) Consolidation.*** As in most businesses, IT investments can be expensive and quickly become obsolete. To address this, we are becoming more proactive about IT decisions. For example:
  - *Server Consolidation.* FAA is implementing an agency-wide initiative overseen by the IT Executive Board (ITEB) to consolidate computer servers as well as the physical facilities that support them. The approach includes identifying, targeting, and shutting down unnecessary servers, data centers, and applications. This endeavor saved FAA $3.7 million during FY 2007.
  - *Helpdesk Consolidation.* FAA is reducing the cost of helpdesk and call centers by moving from a dispersed set of helpdesk providers with varying skills and levels of experience to a single provider able to meet the demands of the agency. When complete, we anticipate reductions in the number of staff needed for helpdesk support, a greater reliance on automated tools to reduce costs by providing helpdesk support remotely, and more standardization of helpdesk and desktop support. Though not yet fully implemented, this consolidation has already saved FAA more than $3.4 million in FY 2007.
- ***Air Traffic Organization (ATO) Service Area Consolidation.*** In 2004, in an effort to maximize efficient use of our resources, FAA restructured the ATO service area offices and centralized the managerial, administrative,



and business support functions. In FY 2006, ATO began its efforts to consolidate the administrative and staff support functions from 27 units in 9 regional offices to 3 units in 3 regional offices. Atlanta, Fort Worth, and Seattle will support the eastern United States, the Central States, and the West Coast respectively. The net result is a decrease of 266 full time support positions, which will save more than $360 million over the next 10 years and allow us to provide better, more consistent service to customers through streamlined processes. Startup costs incurred in FY 2007 offset our initial savings, but in FY 2008, we anticipate savings of $29 million from service area consolidation.

- ***Accounting Consolidation.*** The consolidation of the accounting function into the Mike Monroney Aeronautical Center in Oklahoma City resulted in $4.6 million in savings annually.

- ***Real Property Management.*** FAA, on behalf of the DOT, continued to provide inventory information and performance measures to the Federal Real Property Council (FRPC). The data included metrics for the approximately 69,500 DOT real property assets and reported performance information on the following elements for each real property asset:

  - Mission criticality
  - Facility condition index
  - Utilization rate
  - Annual operating costs

The data and performance information are maintained in the Real Estate Management System (REMS) application that serves as the single-point inventory database for DOT real property assets. During the first quarter of FY 2007, DOT established its first-ever full inventory of real property assets and transmitted the data to the Federal Real Property Profile (FRPP) for inclusion in the Federal real property inventory database.

In accordance with DOT's Asset Management Plan and the Three-Year Timeline for Real Property, FAA performed periodic reviews of the real property asset data. The senior Real Property Officer identified properties for disposal based on the FAA asset inventory and participated in reviews of both General Services Administration (GSA) and non-GSA leases. We also developed a priority investment list for our asset portfolios. FAA continues to support the core objectives of this initiative in the President's Management Agenda (PMA)—to eliminate surplus real property, maintain assets in the proper condition, and manage real property at the right cost.

Labor Cost Management

While labor costs continue to increase, primarily due to the annual Federal pay raise, we have begun to reduce the rate of growth through better management of our payroll costs. We continue to explore and implement new procedures to better manage these costs.

- ***Pay for Performance.*** FAA uses a performance-based system for compensating most of our employees. This means we link pay to performance. All *Flight Plan* performance targets are agency goals directly linked to employee compensation. For employees under this performance-based plan, pay raises are based on an organizational success increase (OSI). In FY 2007, FAA increased the number of employees under this plan to 84% from 80% in FY 2006. We must meet at least 90%, or 27 out of 30, of the *Flight Plan* goals for a full incentive OSI payout. In FY 2007, we met 24 of 30 targets, or 80%.

- ***Minimize Fraud and Abuse.*** We distribute periodic reports to FAA organizations that show sick leave usage, trends, and overages compared to the Government-wide average as an incentive to minimize occurrences of fraud and abuse. Using electronic systems and Human Resource management policies, we are taking steps to better record, track, and manage official time. In addition, we now have the dedicated resources to follow up on all newly filed claims to ensure that injured employees are welcomed back to work as soon as practical and to investigate cases where an employee has been on workers' compensation for more than a year. With these proactive measures, we

saved approximately $20 million through cost avoidance for workers' compensation claims in FY 2007.

Strategic Sourcing and Demand Management

- ***SAVES Program.*** The Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES) initiative is an ambitious effort begun in FY 2006 to implement best practices from the private sector in the procurement of administrative supplies, equipment, IT hardware, and courier services. The Chief Financial Officer (CFO) is accomplishing this strategic sourcing initiative through an innovative partnership with AT Kearney. AT Kearney provides expertise in strategic sourcing and will be compensated on a contingent basis out of the actual savings achieved.

  FAA has awarded seven national contracts in five different categories and expects to achieve over $6 million in cost savings for FY 2007, with annualized cost savings of $7 million each year thereafter. Since the initiation of the contracts, we have exceeded our expected employee compliance rates. For example, we purchased 90% of our office supplies through our contracts, where we expected only 60% to 70% compliance. In addition to better financial oversight, the SAVES contracts result in significant cost savings. We saved

  - 22% for office supplies;
  - 26% for office equipment;
  - 24% for IT hardware;
  - 10% for courier/overnight services; and
  - 13% for financial systems support.

- ***Oracle Enterprise License Agreement.*** This agreement expanded FAA and DOT licenses to include 10,000 more seats, at reduced costs, and increased the number of Oracle products and services available for use. The other DOT modes will now contribute to the annual costs in the amount of their existing Oracle license support costs. This will result in a direct cost reduction for Oracle products of approximately $5.5 million over a 6-year period (FY 2005 through FY 2010) for FAA.

GLOBAL FLIGHT INSPIRES AVIATION EDUCATION FOR YOUTH IN MIAMI

Barrington Irving, a 23-year-old pilot, made history on June 27 when his single-engine Columbia 400, for which he collected all of the parts, touched down at Miami's Opa-Locka Airport. The successful landing ended a 3-month, 26,800-mile journey that established him in the annals of aviation history as the first African-American—and the youngest pilot ever—to fly solo around the world.

"Barrington's trip around the world shows the sky has no limits, and there's nothing you can't do," said FAA's Darrell Roberts, a technical manager with the Miami Tower/TRACON, who works with Irving to promote aviation careers to Miami's inner-city youth. Irving, a senior at Florida Memorial University, is also the founder and president of "Experience Aviation," a nonprofit organization that operates a learning center at Opa-Locka.

At Miami's Opa-Locka Airport, "Experience Aviation" students check out the plane Irving flew around the world.
Credit: FAA Image Library

Irving says his flight around the world, with stops in such exotic locales as Spain, Italy, Greece, Egypt, and Dubai, United Arab Emirates, provided him with new fodder for the classroom. "I've learned a lot more about the aviation industry, for sure," said Irving. "I plan to implement that knowledge at the learning center." Irving lists engineering and international air traffic control as two key areas in which he's gained a much broader perspective, along with the range of aviation-related careers in the industry.

"Everybody knows about the controllers," said Roberts. "There are so many other fields—engineering, pilots, specialists—all the areas that we regulate in the FAA. We've got to be the champion in promoting those types of things."

Roberts says that his goal before he retires is to make sure as many Miami-area students as possible have the opportunity to be exposed to aviation careers.

—Adapted from an article appearing in FocusFAA, FAA's employee news service.

EXPLORING ALTERNATIVE FUELS

While the environment is certainly a driving force behind the quest for alternatives to conventional petroleum-based jet fuel, it is certainly not the only one, according to Dr. Lourdes Maurice, chief scientist with the FAA's Office of Environment and Energy.

"It's sort of a combination of petroleum demand, together with rising costs," said Maurice. "Last year was the first time the cost of jet fuel to the airlines was actually about the same as the cost of labor. So there are a lot of concerns about rising demand, about cost, and about supply stability."

To address those concerns, FAA commissioned a two-part study of alternative fuels totaling about $1 million, the preliminary results of which were received in September, and are being reviewed for finalizing in October.

The first part of the study answered the key questions surrounding feasibility, costs, barriers, and technical issues. The second part examined all of the environmental benefits as well as potential liabilities. This included examining a variety of alternative fuels, expected emissions reductions, and effects those fuels might have on the overall economy. Maurice said environmental and economic impact is not just related to the fuel itself, but also to the production footprint left by taking raw materials from the ground and converting them into jet fuel.

"There's no question that you can make jet fuel from a variety of sources other than petroleum," said Maurice. "The question is, can it be done in a cost-effective and environmentally sound manner?"

With the high price of oil, as well as concerns about energy security, Maurice says conditions may finally be right for the Government and industry to work together to come up with an answer.

The aviation industry is currently exploring the use of synthetic fuels and bio-fuels derived from plants or other renewable sources, as well as other viable alternatives. However, widespread adoption is still years away. Since safety is paramount, any proposed jet fuel must undergo extensive testing, analysis, and substantiation before FAA will consider approval. Predictions are that it will likely be close to 2025 before alternative fuels start having a measurable impact.

"That's as things stand now," added Maurice. "If the government chooses to expedite investment in plans to provide incentives, etc., you could change that equation." So could security. "If you really look at what it is costing us as a nation to be dependent on someone else for petroleum, there might be a different equation," she said.

—Adapted from an article appearing in FocusFAA, FAA's employee news service.

- ***Dell Blanket Purchase Agreement (BPA).*** In FY 2006, the Office of Information Technology at the Mike Monroney Aeronautical Center awarded a 5-year BPA to Dell Corporation for IT equipment including desktops, laptops, servers, printers, and monitors. We exercised our option to continue the agreement in FY 2007, realizing cost savings of $9.6 million to date.

In the area of expense controls, FAA has improved its oversight of the acquisition process to ensure the agency is a responsible steward of the taxpayer's money. In 2005, the Administrator directed the CFO to exercise greater oversight and fiscal control over all agency procurements costing $10 million or more. To address this mandate, the CFO established a staff with significant acquisition and financial controls experience to evaluate proposed acquisitions and make recommendations to the CFO. Since October 1, 2005, the CFO has evaluated over 100 proposed acquisitions with an estimated contract value of $7 billion. In some cases, we found significant deficiencies, including inadequately planned cost control and contractor performance monitoring procedures, unclear statements of work, and unsubstantiated cost estimates. These deficiencies had to be remedied before the proposals were approved by the CFO. In conducting the reviews, the CFO worked with the requesting organization to ensure FAA clearly defined the requirements, justified the expenditure of funds, accurately estimated the costs of the project, and established proper controls to effectively monitor the contractor's performance.

In addition to the CFO's review, FAA implemented two additional measures to better control expenditures and to ensure that FAA operates in a business-like manner. At the same time that the CFO reviews were implemented, the Administrator instructed that any proposed support service contract with a total value of $1 million or more where fewer than three bids were received must be approved by the Deputy Administrator. This approval process ensures that we will rely on the competitive marketplace as much as possible to obtain the best prices for the services that we buy. Also, to better coordinate IT efforts, any IT-related

spending in excess of $250,000 must be approved by the Chief Information Officer (CIO). Together, these three requirements represent a major effort to better manage the agency's resources and ensure that we make sound business decisions.

A-76 Competitive Sourcing

The single largest effort by FAA, and the largest nonmilitary outsourcing initiative in the Federal Government, involved the A-76 sourcing of 58 flight service stations to Lockheed Martin in 2005. This initiative is expected to result in a cost savings of over $2.2 billion from 2003 through 2015. As a result of this transaction, FAA saved approximately $66 million in FY 2007. We expect an additional savings of approximately $54 million for FY 2008.

Cost Accounting System (CAS)

FAA made a concerted effort and significant progress in improving the reliability of its cost data and in allocating those costs to NAS users. The corporate labor distribution compliance rate is routinely reported on a monthly basis in an executive scorecard with the Administrator. In FY 2007, FAA targeted and exceeded a corporate compliance rate of 92.5% of labor hours to be charged to valid projects and activities. In FY 2008, the corporate goal will be 95%, and we expect to achieve this goal as well. Also, as part of the monthly executive scorecard, FAA introduced a new reporting requirement that each line of business must report back to the CFO within 90 days on how they are using cost accounting data to manage costs.

Improving the accuracy and timeliness of capitalization costs was a major effort this past year. This has a direct impact on the reliability and timely recording of operating cost data because all agency expenditures are classified either as operating or as capital. FAA conducted an intensive review of its Construction in Progress (CIP) balance and introduced policy/procedural changes, along with training, to ensure the agency keeps capitalization efforts current.

In February 2007, FAA published its cost allocation study of FY 2005 air traffic costs. We found that those users who pay the commercial excise taxes (including for air taxis and fractional ownership flights) are responsible for roughly 73% of air traffic control costs. Those who pay the general aviation fuel taxes account for approximately 16% of air traffic control costs (excluding flight service stations). Public users account for about 5% of the costs, and flight service stations account for roughly 6% (although this share is expected to decrease in future years). In contrast, commercial excise taxes account for nearly 97% of the AATF revenue, while general aviation fuel taxes account for just over 3% of AATF revenue under the current tax system.

Operating Efficiency and Financial Performance

The main objective of the PMA's Performance Improvement initiative (formerly called the Budget and Performance Integration initiative) is to improve program performance. This initiative encourages agencies to develop efficiency in executing programs, implementing activities, and achieving results while avoiding wasted resources, effort, time, and money. The initiative uses performance measures to track program viability, which is one of six criteria to reach "green" status on the PMA report card.

In support of this initiative, we integrate performance information into budgetary decision-making. FAA's budget submissions are prepared to show how the activities across DOT's six goal areas work together and provide detailed information on how increases or decreases in our budget affect those activities and drive performance.

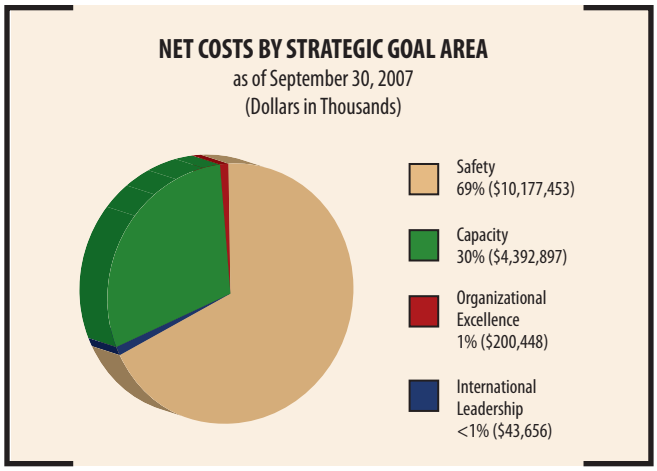
Over the past 5 years, we have instituted several key financial and operating measures to assess operations and determine trends in our financial performance. In FY 2007, we were able to critically review progress made thus far and refine the means by which the agency can measure and increase efficiency. As a component of the FY 2007–2011 *Flight Plan*, we expanded the program to require each FAA organization to develop, track, and report quarterly to the Office of Financial Services on a comprehensive measure of its operating efficiency or financial performance.

Throughout the agency, resources are focused on tracking efficiency measures. As our CAS data improve and as we collect year-over-year data, we will be able to capitalize on analysis of how well we are doing, and where we need to improve. Among the efficiency measures developed to track progress are measures for each program assessed through a Program Assessment Rating Tool (PART) review. Examples of these include the following:

- ATO is tracking its overhead rate, comparing non-facility labor dollars to total labor dollars. Targets have been established and provide a compass for future decision-making.
- ATO has determined a cost per controlled flight and utilizes that metric to determine efficiency in handling Instrument Flight Rule flights.
- The Airport Improvement Program (AIP) is making best practice improvements throughout its regions based on its evaluation of its efficiency measure of grant administration dollars divided by grants.
- The Research, Engineering, and Development's (RE&D's) efficiency measure is to maintain an RE&D management workforce comprising no more than 10% of its overall RE&D workforce. In FY 2006, this allowed RE&D to redirect $1.3 million into its direct research program.

Alignment of FAA Costs and Goals

The alignment of FAA's costs with its four strategic goal areas is captured in the CAS.[1] Projects entered into CAS by every organization are linked to one or more goals, and the percentage of funds that support each goal is identified. At the end of the fiscal year the total net costs for FAA's four lines of business and for its combined staff offices and other programs are divided into the amounts that supported each of the agency's goals: increased safety, greater capacity, international leadership, and organizational excellence.



Just under $10.2 billion, or 69% of the $14.8 billion in total net cost for FY 2007, was devoted to our primary goal of ensuring a safe NAS. ATO spent $7.1 billion, largely to support keeping aircraft safely separated in the air and on the ground. Airports (ARP) directed over $2 billion to establishing safe airport infrastructure. Aviation Safety (AVS) spent slightly more than $990 million on its programs to regulate and certify aircraft, pilots, and airlines, directly supporting the safety of commercial and general aviation. Commercial Space Transportation (AST), FAA staff offices, and other programs spent the remaining $14.8 million to support the agency's safety performance targets and activities.

Nearly $4.4 billion, about 30% of total net costs, was assigned to support FAA's goal of improving the capacity of the NAS. ATO spent $2.5 billion, largely to support its facilities and equipment projects. ARP spent about $1.9 billion to enhance the capacity of the country's airports through runway projects and other efforts. AST directed almost $2.5 million to efforts to expand capacity and AVS contributed approximately $1.4 million. The bulk of FAA's remaining net costs, just over $200 million, supported its Organizational Excellence goal. Nearly all the lines of businesses and staff offices contributed to this goal. FAA spent the remainder, about $43.7 million, to promote its international leadership goal.

[1] **See also Note 11 to FAA's consolidated financial statements titled "Net Cost by Program and Other Statement of Net Cost Disclosures."**

RISKS AND TRENDS

FAA faces a number of challenges in implementing the *Flight Plan* and achieving results. These challenges include the following:

- Air traffic has surpassed pre–September 11, 2001, levels. Currently, the system handles 740 million enplanements on U.S. carriers each year, and the number of passengers is expected to climb to 1 billion by 2015. Dealing with these increases will demand even more from already strained FAA resources.
- Capacity must be expanded to meet increased demand. We will meet these needs by developing new technologies to support the Integrated Work Plan for NextGen. The Integrated Work Plan is an evolutionary plan that will leverage available funding and allow us to provide a national aviation system that can handle the safety, capacity, and security needs into our future.
- The financial difficulties facing the airlines and aviation manufacturers affect their ability and willingness to equip aircraft with new technologies to further enhance safety and capacity.
- FAA needs a stable, cost-based revenue stream that ensures funding for long-term capital needs and is related to the cost of operating the system. Stakeholder involvement can help us ensure that we are concentrating on services that the customer wants and is willing to pay for. FAA sent legislation to Congress that accomplishes these goals and fully funds NextGen.
- The ability to improve safety or expand capacity in the United States and in the international arena depends in part on the willingness of authorities at the state, local, and international levels to cooperate and collaborate in areas such as building new airports, expanding runways, and implementing new technologies.
- Concern over aviation's contribution to local air quality issues and potential impact on global climate change continues to grow. Measuring and tracking fuel efficiency from aircraft operations allows FAA to monitor improvements in aircraft/engine technology and operational procedures and enhancements in the airspace transportation system.

PERFORMANCE HIGHLIGHTS

FAA is charged with promoting the safety and efficiency of the nation's aviation system. With broad authority to enforce safety regulations and conduct oversight of the civil aviation industry, we maintain the system's integrity and reliability. A strategic plan, annual business plans, human capital plans, and the annual Performance and Accountability Report create a recurring cycle of planning, program execution, measurement, verification, and reporting. This strong link between resources and performance shows our accomplishments and reinforces accountability for the way we spend taxpayer money.

Managing Performance

In FY 2004, we launched our first *Flight Plan*, an ambitious strategic plan to help manage and measure performance. The *Flight Plan,* which is updated annually, provides the framework to match resources with initiatives for long-term change. It not only focuses on activities, but it also sets the direction for FAA and the national air and space community in a global transportation environment. It sets forth goals and the performance measures to assess progress in meeting them. These are the goals we must meet to address the challenges facing aviation, as well as to maintain U.S. leadership in aviation. Our *Flight Plan* is tightly aligned with the mission, vision, goals, and performance measures outlined in the DOT Strategic Plan. In FY 2007—the fourth year of the *Flight Plan's* implementation—our goal was to meet at least 90% of our performance targets (27 out of 30). We achieved 24.

SOFTWARE PAVES THE WAY FOR NEW RUNWAY DESIGN

After a decade of testing and development, FAA put the finishing touches on a software package in early FY 2007 that will change the way runway pavements are designed and evaluated. The FAARFIELD (FAA Rigid and Flexible Interactive Elastic Layered Design) software introduces new benchmarks for the pavement used at U.S. airports.

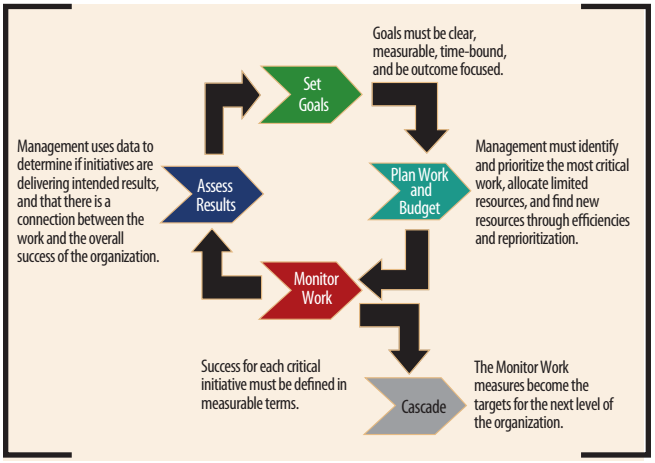
FAA's Pavement Test Facility at the William J. Hughes Technical Center where new software to evaluate pavement thickness was designed and tested.
Credit: FAA Image Library

The need for a new approach to runway pavement evaluation and design became apparent when new, heavier civil aircraft, such as the Boeing 777 and the Airbus A380, which have six wheels per landing gear instead of four, began to appear on the horizon. FAA was concerned that the new planes would increase stress on the nation's runways, significantly shortening their lifespan. Existing pavement evaluation models indicated at the time that billions of dollars would have to be spent over several years to strengthen the nation's runways to accommodate the new aircraft.

In response, the Airport Technology Branch of the Office of Aviation Research, located at the William J. Hughes Technical Center in Atlantic City, N.J., began the task of developing a new airport pavement thickness evaluation and design procedure. With the financial cooperation of Boeing, construction began on the National Airport Pavement Test Facility, which became operational in 1999.

Based more on evaluating the properties of each layer of material rather than on empirical data, the new software has demonstrated that many runways that would have been classified as incompatible under the old design testing procedure can handle the increased stress from the newer aircraft. Those findings have staved off more than $1 billion worth of expenditures in areas such as strengthening overlays, regrooving, and lighting, and helped avoid significant delays during runway renovations. The new procedures have also opened up more airports worldwide to Boeing 777 and Airbus A380 flights operating with heavier payloads.

—Adapted from an article appearing in FocusFAA, FAA's employee news service.



FAA manages performance by means of a four-step framework based on best practices from a number of private and public sector organizations (see the chart above). As we use this framework and instill management discipline into the processes, we anticipate a multiyear journey of learning and change.

The first step in the process, "Set Goals," includes consulting with management, stakeholders, and customers to identify areas for improvement.

The second step, "Plan Work and Budget," focuses on the critical work and resources required to achieve the goals. Following the framework, FAA created a performance-based budget that links resource requirements to the *Flight Plan* and the DOT Strategic Plan. Our FY 2008 Budget in Brief is available at **www.faa.gov/about/budget/** and our *Flight Plan* is available at **www.faa.gov/about/plans_reports/**.

The third step, "Monitor Work," develops measurement of the work required to achieve our goals. FAA has developed organizational business plans for each line of business and staff office. These plans outline the initiatives, activities, and performance targets that link our work directly to the *Flight Plan*. Business plans are available at **www.faa.gov/about/plans_reports/business_plan2007/**.

"Assess Results" is the last and most important step in the performance management process. This year, we continued our practice of reviewing and discussing annual performance goals every

YEAR-TO-YEAR PERFORMANCE GOALS ACHIEVED						
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Performance Targets Met (Number)	9 of 10	9 of 12	24 of 30	28 of 31	27 of 30	24 of 30
Performance Targets Met (Percentage)	90%	75%	80%	90%	90%	80%

month. In addition, we continued to focus more on discussing performance results, root causes of performance issues, and reallocation of resources to correct underperformance.

Our performance measures support FAA's mission to provide citizens with a safe, secure, and efficient global aviation system. Since FY 2002, FAA has tracked the achievement of its performance goals. The chart above provides a brief summary of our year-to-year performance goal achievement trend.

This year, FAA had 30 performance measures and targets that focused our efforts to achieve enhanced aviation safety, increase system capacity, provide international leadership, and ensure organizational success.

Safety. Safety is not only a top priority, it is also an economic necessity. People will fly only if they feel safe. They must trust the system and that trust must be earned. To enhance safety, we continued to focus on the challenge of reducing operational errors and runway incursions. A number of coordinated programs, safety initiatives, and research and development activities enabled us to further reduce the commercial air carrier fatal accident rate. In addition to these results, we were successful in ensuring that there were no commercial space launch accidents. In FY 2007, we achieved six of seven safety goals, missing our Commercial Air Carrier Fatal Accident Rate target. Although we did not achieve our goal of less than 0.010 fatal air carrier accidents per 100,000 departures in FY 2007, we did achieve an impressive 57% drop in the overall fatal accident rate in 10 years. For a more complete discussion of all our safety measures, performance, and steps we plan to take in FY 2008, see page 53.

Capacity. Capacity is the backbone of air travel. Aviation can grow only if capacity grows. We aim to achieve increases in capacity in an environmentally sound manner. Initiatives designed to boost system efficiency were successful in improving airport capacity while reducing exposure to aircraft noise and emissions. In FY 2007, we achieved five capacity goals and, significantly exceeded two goals: aviation noise exposure and fuel efficiency. We missed two goals: NAS On-Time Arrivals and Average Daily Airport Capacity for the seven metro areas.

Concerning the noise exposure goal, we increased our target from a 1% reduction per year to a 4% reduction. We will continue to monitor the trends and will review this target after the reauthorization proposal has been acted on and our work on environmental trends in NextGen has been further refined. Regarding aviation fuel efficiency, we are reviewing the impact of air traffic management enhancements and changes in operational trends to assess whether a revised performance metric should be used for future targets. We are concerned that the present metric for measuring and tracking fuel efficiency may not adequately capture system performance.

We did not achieve our NAS On-Time Arrivals performance target due largely to adverse weather conditions, which played a significant part in increasing weather-related airport delays from 2006 to 2007. To help achieve this target in the future, FAA continues to evaluate new tools and technologies such as ground delay programs and airspace flow programs used to combat the impact of thunderstorms on operations. We did not meet the desired target of the Average Daily Airport Capacity (7 metropolitan areas) performance

due to two factors: baseline setting and inclement weather. To address these factors, we created and are implementing corrective actions. For a more complete discussion of all our capacity measures, performance, and steps we plan to take in FY 2008, see page 61.

International Leadership. FAA's goal is to make the international aviation system as safe and efficient as the one enjoyed in the United States. This year, we provided technical assistance, staff, and funding to assist 27 countries in improving aviation safety and efficiency. During FY 2007, we continued to promote safety by broadening the international network of partnerships with civil aviation authorities around the world. In FY 2007, we achieved all four international leadership goals. For a complete discussion of all our International Leadership measures, performance, and steps we plan to take in FY 2008, see page 70.

Organizational Excellence. FAA employees are our most valuable resource. Together, we operate the largest and safest aerospace system in the world. To do this efficiently, we must continually provide stronger leadership, a better-trained and safer workforce, enhanced cost-control measures, and improved decision making. During FY 2007, we continued to address challenges identified by DOT's Inspector General. We successfully enhanced acquisition management and worked on increasing the effectiveness of our new accounting and acquisition systems to improve financial management. We continue to make great strides in improving the business processes that support efforts to improve aviation safety and system efficiency. In FY 2007, we achieved 9 out of 12 of our Organizational Excellence goals. For a more detailed discussion of all our organizational measures, performance, and steps we plan to take in FY 2008, see page 74.

We exceeded our FY 2007 target to reduce the time to fill mission-critical positions by 1% over the FY 2006 baseline of 55 days. The time-to-fill was significantly reduced this year as a result of a number of actions, including follow-ups with our lines of business on all candidate certificates pending over 30 days.

We did not achieve our minimum goal of 66 points on our Customer Satisfaction scores for commercial pilots. We are currently reviewing the data to see where we can improve.

Our ability to so dramatically improve our performance in the grievance processing time was due to more direct interactions between headquarters staff and various regional labor relations staff offices, periodic informational bulletins, and targeted training.

After 5 years of unqualified audit opinions, we received a qualified opinion on our FY 2006 financial statements due to the lack of documentation supporting our CIP balance. After an intensive, year-long effort to review the balance and restate our FY 2006 financial statements, the auditors have issued a revised, unqualified opinion on our restated FY 2006 financial statements.

In addition, we received an unqualified opinion on our FY 2007 financial statements. However, we incurred a material weakness related to the timely processing of transactions and accounting of Property, Plant, and Equipment, including the CIP account. To address this weakness, we have restructured roles and responsibilities and reallocated resources to make additional improvements to our capitalization processes. The new organizational change will enable more accountability and transparency in the capitalization process and enable us to keep our CIP balance current and accurate

The employee attitude survey (EAS) is one of 30 FAA *Flight Plan* goals used to assess agency performance as well as a factor in determining the amount of the Organizational Success Increase (OSI). It has been determined that the FY 2007 EAS results were compromised, rendering them invalid. As a result, the EAS results will not be considered in determining the agency's OSI. FAA organizations will, however, continue to implement their EAS Action Plans that are based on the 2006 EAS results. In addition, we are revising our FY 2008 *Flight Plan* performance target for leadership and accountability. These actions ensure that we continue our efforts to foster better employee recognition and greater management effectiveness and accountability.

The following Performance at a Glance chart provides a snapshot of our FY 2007 results.

FY 2007 PERFORMANCE AT A GLANCE				
Performance Measure	**FY 2007 Target**	**FY 2007 Results**	**FY 2007 Status**	**FY 2008 Target[1]**
SAFETY				
Commercial Air Carrier Fatal Accident Rate (rate per 100,000 departures)	0.010	0.022[2]	▲	<0.010
General Aviation Fatal Accidents	331	314[2]	●	325
Alaska Accidents (number of fatal and nonfatal accidents)	110	92[2]	●	104
Runway Incursions (rate per million operations)	0.530	0.393[3]	●	0.509
Commercial Space Launch Accidents (number of fatalities, injuries, or damage to the uninvolved public)	0	0	●	0
Operational Errors (rate per million activities)	4.27	4.08[3]	●	4.27
Safety Risk Management (number of significant changes in the NAS)	3	3	●	6
CAPACITY				
Average Daily Airport Capacity (35 OEP airports)	101,562	102,539[3]	●	101,868
Average Daily Airport Capacity (7 metropolitan areas)	63,080	62,351[3]	▲	63,386
Annual Service Volume (ASV) (operations accommodated/number of runway projects)	1.00% 2 projects	1.57% 2 projects	●	1.00% 1 project
Adjusted Operational Availability (service hours for facilities supporting the 35 OEP airports)	99.70%	99.82%[3]	●	99.70%
NAS On-Time Arrivals (flights arriving no more than 15 minutes late)	87.67%	86.32%[3]	▲	88.00%
Noise Exposure (cumulative reduction in persons exposed to significant noise)	–8.00%	–27.00%[4]	●	–12.00%
Aviation Fuel Efficiency (cumulative reduction in fuel burned per kilometer flown)	–5.00%	–10.82%	●	–5.00%
INTERNATIONAL LEADERSHIP				
Aviation Safety Leadership (number of safety enhancements implemented by China)	7	10	●	5
Bilateral Safety Agreements (number of new or expanded agreements)	3	3	●	2
External Funding (millions of dollars secured)	$12.00 M	$13.36 M	●	$ 15.00 M
NextGen Technologies (number of countries implementing technologies)	1	1	●	1
ORGANIZATIONAL EXCELLENCE				
STRATEGIC MANAGEMENT OF HUMAN CAPITAL				
Employee Attitude Survey (percentage of positive responses)	38.00%	N/A	▲	TBD
Mission-Critical Positions (reduction in time to fill selected positions)	–1.00%	–30.91%	●	–3.00%
Reduce Workplace Injuries (injury and illness cases per 100 employees)	2.76 per 100	2.56 per 100[5]	●	2.68 per 100
Grievance Processing Time (reduction in average days to complete processing)	–10.00%	–61.64%	●	–15.00%
Air Traffic Controller Workforce Plan (variance between plan and actual workforce level)	0% to 2% over plan	0.45% over plan	●	0% to 2% over plan

FY 2007 PERFORMANCE AT A GLANCE				
Performance Measure	**FY 2007 Target**	**FY 2007 Results**	**FY 2007 Status**	**FY 2008 Target[1]**
IMPROVED FINANCIAL PERFORMANCE				
Cost Reimbursable Contracts (percentage of contracts closed out)	85.00%	95.00%	●	85.00%
Cost Control (number of activities per organization)	1	1	●	1
Clean Audit With No Material Weaknesses (NMW)	Clean Audit w/ NMW	Clean Audit with one material weakness	▲	Clean Audit w/ NMW
ACQUISITION MANAGEMENT				
Critical Acquisitions on Budget (percentage within projections)	87.50%	100%	●	90.00%
Critical Acquisitions on Schedule (percentage meeting project milestones)	87.50%	97%	●	90.00%
CUSTOMER SATISFACTION AND OPERATIONAL CAPABILITY				
Customer Satisfaction (score on the American Customer Satisfaction Index for pilots)	66	64	▲	67
Information Security (number of cyber security events)	0	0	●	0

● Green: Goal Achieved
▲ Red: Goal Not Achieved

Notes:

For a detailed description of the performance measure, see performance goal tables in the Performance Results section.

For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.

TBD: To be determined.

[1] FY 2008 targets are from FY 2007–2011 *Flight Plan*.
[2] Preliminary estimate. Final data will be available in March 2009.
[3] Preliminary estimate. Final data will be available in January 2008.
[4] Projection from trends. Final data will be available in May 2008.
[5] Projection from trends. Final data will be available in November 2007.

Verification and Validation of Performance Information

We employ strong management controls to ensure that data used to assess performance are accurate, timely, and complete. By exercising rigorous internal and external reviews, our verification and validation process promotes the confidence of FAA managers and the Administrator in the performance data results.

We use several internal review processes to ensure accurate data. At the beginning of each fiscal year, we review our *Portfolio of Goals* to ensure that each performance target has accurate and detailed documentation and includes complete data source information and reliability statements. Where the criteria for targets have changed, we note and explain the changes. DOT also independently verifies our performance data. In addition, several performance measures, such as the commercial airline fatal accident rate and general aviation fatal accidents, require independent verification by the National Transportation Safety Board (NTSB) and the Bureau of Transportation Statistics. In these instances, data are not considered final until NTSB gives its approval. (See **www.faa.gov/about/plans_reports/media/Portfolio_of_Goals_final.pdf** to review our FY 2007 goals.)

A critical component of managing our performance is the periodic independent evaluation of FAA programs. While performance measures show if intended outcomes are occurring and assess trends, program evaluations use analytic techniques to assess the extent to which our programs are contributing to the desired outcomes and trends. Program evaluations may be conducted by DOT staff, contractors, academic institutions, the Government Accountability Office (GAO), or the Office of the Inspector General (OIG).

Reviews such as the OIG's *Management Challenges* (beginning on page 28) provide focus and

opportunities for improvement, and help us maintain the public's trust. In response to these reviews, we work with each FAA organization to address concerns and improve the way we conduct business.

It has been determined that the FY 2007 EAS results were compromised, rendering them invalid. We are reviewing our controls surrounding the collection of these data, and in FY 2008 will consider appropriate modifications to the process.

PRESIDENT'S MANAGEMENT AGENDA (PMA)

President George W. Bush's Management Agenda, announced in 2001, is a strategy for improving the management and performance of the Federal Government. The objective is a Federal Government that is

- Citizen-centered, not bureaucracy-centered
- Results-oriented, not output-oriented
- Market-based, actively promoting rather than stifling innovation through competition

The PMA contains five Government-wide and nine agency-specific goals to improve Federal management and deliver results that matter to the American people. Together, these goals are referred to as the President's Management Agenda (PMA). The five Government-wide initiatives are *Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government*, and *Performance Improvement*. In addition to these five initiatives, FAA, as an agency within the DOT, participates in two additional agency-specific initiatives: *Eliminating Improper Payments* and *Federal Real Property Asset Management*.

OMB assesses all Federal departments through a quarterly Executive Branch Management Scorecard rating of green, yellow, or red for status and progress on each PMA initiative. While there are 13 agencies within the DOT that contribute to the overall PMA, FAA's contribution is significant and has a major impact on the rating results. For the *Federal Real Property Asset Management* initiative, FAA has over 99% of the real property within DOT, effectively driving the initiative and its results. For a more detailed description of the President's Management Agenda, see the OMB website at **www.whitehouse.gov/omb/budintegration/pma_index.html**.

FAA Accomplishments

Strategic Management of Human Capital

The Strategic Management of Human Capital involves an ambitious range of initiatives to ensure that planning and management of agency human capital is strategic, supports organizational performance, and ensures mission accomplishment. The DOT/FAA human capital accomplishments helped to earn DOT a "green" status rating on the President's Management Agenda for a fourth consecutive year.

- Recruiting a highly qualified, high-performing workforce in today's competitive environment remains an important FAA human capital challenge. FAA created a new Corporate Recruitment and Marketing organization to promote agency job and internship opportunities such as trainee air traffic control specialists and airway transportation system specialists among other critical workforce hiring needs. MySpace, FaceBook, and CraigsList, as well as newspaper and radio ads are used to market our job opportunities.

- Hiring manager feedback regarding the increased outreach shows about 68% agree that the hiring process is effectively attracting the right applicants and that they would like to see a greater number of applicant referrals for each vacancy.

- Agency workforce planning is helping us understand and plan for peak retirement waves for agency and mission-critical workforces. The annual update of the FAA Air Traffic Controller Workforce Plan reflects the latest data on controller retirements and for the first time provides a facility-to-facility breakdown of staffing numbers. Updates of workforce plans for FAA and each line of business and staff office were conducted in parallel with the FAA

Flight Plan and organizational business plan updates. These workforce plans ensure strategic alignment between people, goals, and mission accomplishment.

- To achieve our mission and meet future challenges, workforce assessments of current and desired future skills, competencies, and professional certifications continue. Further, to close critical gaps in mission-critical workforces, FAA participated in DOT and Government-wide competency assessments for leaders and for professionals in IT, human resources, acquisition, and engineering.
- The PMA sets out specific expectations for ensuring the continuity of senior leadership through succession planning and executive development. In support of this, FAA implemented the Senior Leadership Development Process, a systematic approach to executive level succession planning that balances agency-wide priorities with the specific needs of participating lines of business and staff offices. We selected 30 candidates to participate and will launch the program in FY 2008.
- FAA pursued an e-Government solution to replace about 45,000 FAA employees' current Official Personnel Folders with an electronic employee record. This solution will provide FAA employees with direct, on-line access to their employment folders in early FY 2008.
- FAA's Human Resource Management (AHR) organization developed and implemented a new self-accountability system using trained reviewers. The accountability system ensures that the agency maintains a merit-based personnel system by monitoring, evaluating, and measuring the results from agency human resource management policies, programs, systems, and initiatives.

Competitive Sourcing

In FY 2007, we strengthened the Federal Activities Inventory Reform Act inventory submission by ensuring the criteria used to determine function and reason codes for both "inherently governmental" and "commercial-exempt" were fully justified. The FY 2007 inventory for FAA totaled 45,195 full-time equivalents. We continue to evaluate our competitive positions in various functions and lines of business for competitive outsourcing opportunities.

Improved Financial Performance

Unqualified Annual Audit Opinion

- FAA received a qualified opinion on its FY 2006 consolidated financial statements due to a material weakness in the timely processing of CIP transactions. In response, we developed an aggressive corrective action plan, under which we reviewed and validated the entire $4.6 billion September 30, 2006, CIP balance.

  Following this review and validation, we restated the FY 2006 financial statements to correct both the effects of untimely recognition of expenses related to CIP activity that did not meet FAA's capitalization requirements, and the untimely capitalization of completed assets. We also developed long-term policy and procedure changes to ensure routine monitoring and measurement of ongoing capitalization efforts and the CIP balance. The remaining corrective action steps, to be completed in FY 2008, include adopting efficiency measures in the capitalization process, increased use of automation, organizational changes, and the addition of resources.
- In FY 2006, FAA automated its Budgetary to Proprietary reconciliation tools. During FY 2007, we continued our efforts and further reduced the variances, to the extent that all eight of our internal metrics reached green status.

Managerial Cost Accounting

FAA made a concerted effort and significant progress in improving the reliability of cost data and in allocating the costs to NAS users. In FY 2007, we targeted 92.5% of labor hours to be charged to valid projects and activities, and achieved a final rate of 95%. Further, the labor distribution compliance

rates are reported monthly in an executive scorecard and are reviewed by the Administrator.

Also, as part of the monthly executive scorecard, we introduced a new reporting requirement related to the cost accounting data. Each line of business is required to report to the CFO on a quarterly basis how the cost accounting data are being used to manage costs.

To ensure cost data are current, FAA establishes new project codes when management needs to track the cost of a project or activity. This is an ongoing activity based on needs to better understand the cost of FAA operations. Customers are routinely consulted to incorporate system change requests into future CAS releases and improve managerial cost reporting.

Expanded Electronic Government

Capital Planning

During FY 2007, we submitted 30 FY 2008 business cases to DOT and OMB; they found that all of these business cases were compelling, well-managed, and acceptable. In addition, we submitted 29 FY 2009 business cases to DOT for review and approval. DOT approved and forwarded these business cases to OMB in September, and OMB's review will be completed in November.

In FY 2005, FAA assessed all major capital investments against Earned Value Management (EVM) American National Standards Institute standard 748. We then submitted the results and a plan of action and milestones (POAM) to implement full EVM on all programs that have significant OMB Development/Modernization/ Enhancement spending by December 2007. FAA is on track to meet the POAM targets. As of August 2007, 60% of all currently assessed program elements are green, reflecting a significant improvement from August 2005.

In addition, we created our first IT Portfolio, which consists of over 60 administrative IT investments exceeding $250 million. The portfolio will be managed by a senior-level executive board chaired by the CIO.

We are also working with the Office of the Secretary of Transportation (OST) and OMB to have the NAS Modernization Program, a collection of projects worth more than $2 billion annually, taken off the GAO's High Risk List. To achieve this goal, we are institutionalizing many best practices in investment management. We have received a positive response from both GAO and OMB for our plan and accomplishments thus far and have a commitment from GAO that the agency's modernization programs will be moved off the High Risk List if the goals are met.

IT Security

In FY 2007, FAA performed initial certification and authorization on 8 systems and recertified all 84 systems whose anniversary dates occurred during the fiscal year. We also completed self-assessments on the remainder of our 171 IT systems. We continue to participate in DOT's compliance review process and are responsible for keeping the DOT Enterprise Portal up-to-date with respect to FAA IT systems.

Enterprise Architecture

FAA continues to improve its enterprise architecture (EA). In FY 2007, we updated the EA to include the applications inventory and mapped the applications to the server(s) on which they reside. The FAA lines of business and staff offices are also strengthening the future view of the EA by developing and coordinating investment roadmaps that will be approved by the Joint Resources Council.

Government-Wide Initiatives

FAA continues to participate in eGovernment initiatives that contribute to OST's successful eGovernment scorecard. We participate in the eGrants Executive Committee, which is responsible for developing OST's consolidated eGrant Management application. We also participate in OST's planning team for the migration of the current Docket Management System to the Federal Docket Management System, where we initiated a special group to define the specific requirements for legal documents. In addition, we participated in two surveys to assess Federal

needs for geospatial products and services, and we are collaborating with the National Archives and Records Administration to develop processes and best practices for scheduling records in electronic systems (E-records management).

Performance Improvement

The Performance Improvement initiative, formerly the Budget and Performance Integration initiative, places emphasis on efforts to improve program performance. To achieve this goal, we endeavor to be transparent about our goals, our performance relative to those goals, and what steps we are taking to correct deficiencies and to improve performance.

The FAA *Flight Plan*, our 5-year strategic plan, which is updated annually, is linked to performance results. The FAA Administrator holds monthly *Flight Plan* meetings on the status of our performance goals, and these are also posted on FAA's home page. Additionally, although we are not required to prepare a separate PAR, we do. In this report we provide details of FAA's performance on all 30 *Flight Plan* performance goals.

Further, FAA links employee compensation to performance. In the agency, accountability for results is systemic throughout, with 84% of our employees, including FAA executives, on the pay-for-performance system. As a result, a portion of these employees' pay raises is based on the agency's achievement of its performance targets. In addition, annual performance reviews are linked to the *Flight Plan*.

Each fiscal year, FAA's Management Board establishes strategic goals, corporate projects, and performance targets in the four goal areas: Safety, Capacity, International Leadership, and Organizational Excellence. Two incentive programs, the OSI and Short Term Incentive (STI), help to strategically manage the FAA workforce by linking pay to performance.

OSI goals are directly linked to the FAA *Flight Plan*. The accomplishment of these agency-wide goals serves as the basis for granting an OSI as an annual adjustment to the base salaries of eligible FAA employees. The STI program is intended to help communicate corporate goals and the Administrator's priorities for the year, while providing incentives to the executive leadership for helping lead the accomplishment of these goals and priorities.

Another important focus of FAA is the OMB Program Assessment Rating Tool (PART) reviews. As part of the processs, programs that have undergone PART assessments develop and implement efficiency measures which are tracked in both the PART Web and in our business plans.

FAA's Research, Engineering, and Development (R,E&D) program has developed efficiency measures to evaluate overhead costs in its program budget and maintain the R,E&D management workforce to no more than 10% of the overall R,E&D workforce. Financial plans are reviewed at various reporting levels to better manage overhead cost to ensure as many dollars as possible go directly to research projects. FAA also works with NASA to ensure no duplication of research effort takes place. In coordination with NASA, FAA will develop a follow-on plan with the National Aeronautics Research and Development Policy and will work to identify challenges and R&D solutions to safety, environment, and human factors issues affecting NextGen.

In FY 2007, OMB conducted a PART assessment of FAA's Air Traffic Organization (ATO)—Terminal programs. ATO—Terminal directs air traffic flows and assists with take-offs and landings of aircraft in and around airports and airport control towers. The program obtained a score of 74 and was deemed moderately effective (the second highest rating category), scoring better than ATO's previous PART assessment. PART reviews for the rest of ATO will be conducted in the next 2 years.

FAA's Airports Organization has developed efficiency measures and will make their active use a standard management practice.

Eliminating Improper Payments

The PMA strives to instill first class financial management practices in departments and agencies throughout the Executive Branch. Such efforts ensure that taxpayer dollars are spent wisely and efficiently, appropriately accounted

for, and protected from fraud or misuse. Improper payments are defined by the Improper Payment Information Act (IPIA) of 2002 as payments "that should not have been made or that were made in an incorrect amount." This definition includes all payments to an ineligible recipient, for an ineligible service, duplicate payments, payments for services not received, etc. The Act requires Federal agencies to annually review the susceptibility of all their programs and activities, and to estimate the improper payments amounts and rates for those programs found to be susceptible.

Our excellent record of keeping improper payments to an insignificant amount caused OMB and DOT to change the focus of our improper payments efforts to grant payments made under our Airport Improvement Program.

In FY 2006, our activities centered on researching payments made by grant sponsors to help develop a statistical sampling and testing methodology that would be used for future reviews.

During FY 2007, we applied that knowledge and methodology to a comprehensive effort to test 10 statistically selected airport improvement projects across the nation. We evaluated the validity and appropriateness of payments relative to the terms of the grant agreement by considering such issues as whether contracted goods or services (pavement, excavation, design services) were consistent with engineering specifications; the reasonableness of progress payments; and inspection reports supporting completed work.

In accordance with the IPIA and following the requirements of the OMB, DOT contracted with AOC Solutions to determine estimates of improper payments for FY 2007 in three DOT grant programs, including the FAA Airport Improvement Program (AIP).

The review process involved a three-stage sampling plan to select a statistically representative sample of AIP payments and test their propriety. The sampling plan was designed to meet the OMB Circular A-123 requirements of no more than plus or minus 2.5% sampling error at a 90% confidence interval. It ensures a reliable nationwide estimate of improper payments made by the AIP program. No improper payments were identified during this review. The test results were submitted to OST for review to be compiled with the results of the other Operating Administration reviews to develop an estimate of improper payments for the DOT.

Federal Real Property Asset Management

It is the policy of the United States to promote the efficient and economical use of America's real property assets and to ensure management accountability for implementing Federal real property management reforms. Based on this policy, Executive Branch departments and agencies must recognize the importance of real property resources through increased management attention, the establishment of clear goals and objectives, improved policies and levels of accountability, and other appropriate actions.

In FY 2007, FAA continued to support the core objectives of this PMA initiative to eliminate surplus real property, maintain assets in the proper condition, and manage real property at the right cost.

The FAA, on behalf of DOT, continued to provide inventory information and performance measures to the Federal Real Property Council. The data included metrics for the approximately 69,500 DOT real property assets and reported performance information on the following elements for each real property asset:

- Mission criticality
- Facility condition index
- Utilization rate
- Annual operating costs

The data and performance measures are maintained in the REMS application that serves as the single-point inventory database for DOT real property assets. During the first quarter FY 2007, FAA established DOT's first-ever full inventory of real property assets and transmitted the data to the FRPP for inclusion in the full Federal real property inventory database.

In accordance with DOT's Asset Management Plan

and the Three-Year Timeline for Real Property, FAA participated in periodic reviews of the real property asset data. In addition to disposal activities, FAA developed a priority investment list for its asset portfolio. The investment priorities are sorted by fiscal year and prioritized for budget preparation.

FY 2007 INSPECTOR GENERAL'S SUMMARY OF CHALLENGES AND FAA ACTIONS

The OIG issues its annual report on DOT's top management challenges to aid DOT's agencies in focusing attention on and mapping work strategies for the most serious management and performance issues facing the Department.

In selecting the challenges for each year's list, the OIG continually focuses on DOT's key strategic goals to improve transportation safety, capacity, and efficiency. In addition to the OIG's vigilant oversight, it also draws from several dynamic factors to identify key challenges. These include new DOT initiatives, cooperative goals with other Federal departments, recent changes in the nation's transportation environment and industry, as well as global issues that could have implications for the United States' traveling public. As such, the challenges included on the OIG's list vary each year to reflect the most relevant issues and provide the most useful and effective oversight to DOT agencies.

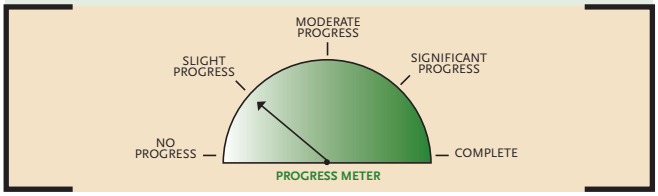
FAA recognizes that management challenges are not issues that are easily solved. In many cases they require investments or upgrades to technology or substantial changes in long-standing procedures or program activities. To completely address a management challenge may take more than one fiscal year. Since the OIG may refine the scope of the management challenge based on information that may become available during the year, it can be difficult to provide a context showing how far along FAA is in resolving a particular challenge.

To provide perspective on our progress, we have included DOT's assessment of FAA's achievements toward resolving each of the management challenges we faced in FY 2007. These challenges were reported by the OIG in a forward-looking fashion at the end of FY 2006. The result is displayed via the Progress Meter icon. FAA hopes that this approach will provide perspective toward gauging the agency's progress in resolving management challenges and associated issues. The OIG's report of challenges that DOT will face in FY 2008 is provided as Other Accompanying Information. (See page 163.)

Challenge: *Defining, Developing, and Implementing Strategies To Improve Congested Conditions on the Nation's Highways, Ports, Airways, and Borders*

Proposals for Market-Based Solutions to Better Utilize Existing Capacity Raise Important Policy Issues

- Funding the nation's aviation needs requires achieving consensus on a financing mechanism that meets FAA's future resource needs, promotes a more efficient use of the air traffic control system, and addresses users' equity concerns.
- Educating the public on pricing strategies and their benefits, overcoming the perception of double taxation, and income-equity issues.



In February 2007, FAA submitted to Congress the Federal Aviation Reauthorization and Financing Improvement Act of 2007. FAA is currently working with Congress to ensure timely passage of legislation to reauthorize the agency's programs and revenue sources.

FAA's reauthorization legislation contains proposals designed to reduce congestion, accelerate the transition to NextGen, and otherwise improve the efficiency and oversight of the system. An important part of FAA's reauthorization proposal

includes a new financing system. Under the proposal, equity and efficiency will be enhanced.

This new system will tie payments that NAS users make for air traffic control services more closely to actual costs. Tying costs to the benefits and services will create incentives for more efficient use of the air traffic control system. FAA's proposal also includes language to permit the use of market-based mechanisms at other congested airports when certain conditions are met.

One illustration of FAA's use of market-based solutions is the better use of capacity at New York LaGuardia Airport. In August 2006, FAA issued a Notice of Proposed Rulemaking (NPRM), subject to congressional approval, that anticipates the use of market-based mechanisms at LaGuardia in the future. If Congress approves the proposal, a supplemental NPRM will be necessary to implement such measures. The NPRM for LaGuardia also anticipates the use of a more robust secondary market in which air carriers would have the opportunity to buy and sell operating authorization at LaGuardia.

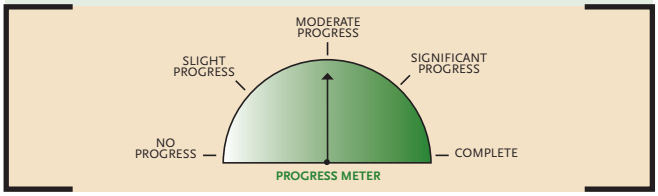
Under the proposal, if the Secretary of Transportation and the FAA Administrator determine that market-based mechanisms, such as auctions or congestion pricing, are appropriate to promote the efficient movement of traffic at LaGuardia, then the Port Authority of New York and New Jersey may implement market measures at the airport after the rulemaking process is complete. If the Port Authority does not implement such actions within one year of the Secretary's determination, the Secretary may implement market measures at LaGuardia. Further, any revenues from market-based mechanisms would be deposited into an escrow account and expended on airport-related projects that would be eligible for funding from Passenger Facility Charges. Revenues from market-based mechanisms would also be available for any other projects that the Secretary declares to be in the public interest.

OIG notes that with new pricing strategies comes the challenge of educating the public on the rationale and benefits of such strategies. FAA will continue to lead a public outreach campaign to educate stakeholders on pricing strategies, such as congestion pricing and auctions. As in the past, FAA and DOT will continue the contractual relationship with the National Center of Excellence for Aviation Operations Research (NEXTOR) to conduct research on various market-based proposals to implement at LaGuardia. Also, in support of FAA's efforts, NEXTOR organized a workshop in June 2007 to discuss the next steps in the consideration of market-based mechanisms.

OIG calls for and FAA is committed to the monitoring of the effects of new regulations, as well as their potential impact on market-based pricing strategies on constituents—notably the impact on air service to small communities. To meet this challenge, the NPRM for LaGuardia encourages the continuation of service to small communities and proposes to permit a fixed number of operating authorizations for service to smaller airports. FAA envisions these small community allocations would remain in place, even if FAA was granted authority to conduct market-based mechanisms at LaGuardia.

Keeping Planned Short- and Long-Term Aviation Capacity Enhancing Initiatives on Schedule to Relieve Congestion and Delays

- Ensure navigation equipment, new procedures, and airspace modifications are in place when runway projects are commissioned to get the expected capacity benefits. (Runway projects: Philadelphia, Seattle-Tacoma, Los Angeles, Washington Dulles, Boston-Logan, Chicago O'Hare.)
- Ensure that airspace redesign efforts focus on completing complex environmental reviews and matching projects with available funds.
- Continue concept development, set milestones, and determine transition strategies for NextGen.



NextGen is a wide ranging, multi-agency initiative to transform the NAS to meet future demands and avoid gridlock in the sky and in the airports. The *Operational Evolution Partnership (OEP), Version 1.0*, is FAA's plan for implementing NextGen.

FAA published the new OEP Version 1.0 in June 2007. It is an expansion of the original OEP, the *Operational Evolution Plan*, established in 2001 following a summer of crippling flight delays. The forecasted and actual benefits of the plan's activities are measured annually, and a team chaired by FAA's Deputy Administrator, ensures each program is implemented on schedule. Through the OEP, FAA and its aviation partners are committed to increasing the capacity of the NAS by 30%. Analysis shows that the OEP will achieve its original goal by 2013.

OEP will also focus on producing more than 60 new operational capabilities between now and 2025. These new capabilities will transform our current air transportation system from ground-based surveillance and navigation to new and more dynamic satellite-based systems. Technologies and activities that support this transformation are currently part of FAA's investment portfolio and represent a step beyond our legacy modernization programs. These new capabilities and the highly interdependent technologies that support them will change the way the system operates, reduce congestion, and improve the passenger experience.

The 35 airports included in the OEP account for about 75% of all passenger enplanements. Most of the current delays to air traffic can be traced to inadequate throughput—measured as arrival and departure rates—at these airports. The construction of new airfield infrastructure such as new runways, taxiways, and major runway extensions is currently the most effective method of increasing throughput. Since FY 2000, 13 new runways have opened at the 35 OEP airports, increasing capacity by 1.6 million more operations every year.

Currently, eight OEP airports have airfield projects under construction—three new runways, two airfield reconfigurations, one runway extension, and two taxiways (one end-around and one center). These projects at core OEP airports will be commissioned through 2011. When commissioned, these eight airports will have the potential to accommodate about 400,000 more annual operations and significantly reduce runway crossings through the use of end-around taxiways.

End-around taxiways are new to the OEP and provide another means to improve safety and decrease delays at a busy airport by providing an alternative to aircraft crossing an active runway. Instead, end-around taxiways allow planes to taxi around runways, often in a semi-circle. Atlanta opened the first FAA-approved end-around taxiway in April. Dallas-Ft. Worth has its version under construction. Boston Logan has a centerfield taxiway under construction, which will improve the safety and efficiency of the airfield operations.

During FY 2008, the southside reconfiguration of Los Angeles International Airport will be completed. This reconfiguration includes the relocation of a runway, in April 2007, and the opening a new center taxiway in FY 2008. Once completed, the risk of runway incursions will be significantly reduced. In addition, Los Angeles will open an end-around taxiway. In FY 2009, five OEP airports—Seattle, Chicago O'Hare, Washington Dulles, Philadelphia, and Dallas–Ft.Worth—will commission airfield projects.

Further, 15 metropolitan areas account for 58% of all passenger activity and almost 15% of the aircraft based in the United States. FAA continues to work with local authorities, airport sponsors, and state aviation agencies to examine existing airport infrastructure; evaluate the impact of currently planned enhancements such as a new runway or taxiway, a major runway extension, or significant apron expansion; and identify additional activities with the potential to increase capacity or efficiency or reduce delays. The complete list of airports in the metro areas, referred to as metro airports, is posted on the OEP website at **www.faa.gov/programs/oep**. In addition, FAA will work with local and regional authorities to examine solutions to improve airport capacity and reduce delay.

To realize the full capacity of a newly commissioned runway, new procedures and equipment must already be in place. This has been and will be an on-going issue over many years. Prior to 2001, several new runways were commissioned without full capabilities because schedules were not synchronized. A 2001 memo from the FAA Deputy Administrator established commitment and accountability for critical new runway projects, stating: "Through the OEP, the FAA will ensure that all necessary facilities, equipment, procedures, airspace changes, and staffing are in place at the time a new runway is commissioned." From this grew the OEP-sponsored Runway Template Action Plan (RTAP).

Through the RTAP, OEP runway projects are linked to FAA's strategic *Flight Plan* and to budget and work plan prioritization processes. The RTAP identifies a consistent approach to building new runways so that those involved can better understand the process and can evaluate the impact of resource allocations. The RTAP clearly communicates the expectations and accountability for both agency and community stakeholders.

In addition, in June 2001, a cross-organizational team was assembled to develop a comprehensive generic project template for building a new runway. The resulting schedule, customized for each OEP airport runway project, defines organizational accountability and supports regular meetings of project stakeholders, including FAA, airlines, and the airport sponsor. A customized RTAP may include as many as 300 tasks, each of which is detailed with a description, organizational accountability, interdependencies, and status indicator as well as dates for start, finish, and duration.

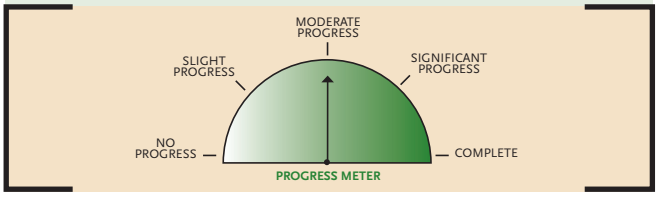
Each quarter, FAA regions update the OEP Team on RTAP projects. Since 2001, completed actions have helped FAA commission 12 new OEP-airport runways with full operational capability, meaning that the runway provides its intended benefit from initial use.

During FY 2008, FAA will continue to monitor and report on infrastructure enhancements that will improve capacity, reduce delays, or improve access at the airports in the 15 identified metropolitan areas. FAA will monitor and report on the status of several regional studies; undertake a study to examine a multi-modal approach to solve capacity limitations in high-density corridors on the east and west coasts; and undertake follow-on activities associated with the Future Airport Capacity Task (FACT) 2 report, *Capacity Needs in the National Airspace System (2007–2025)*.

Challenge: *FAA Reauthorization—Reaching Consensus on a Financing Mechanism To Fund FAA and Establishing Funding Requirements*

Deciding on a Financing Mechanism That Promotes a More Efficient Use of the Air Traffic Control System and Is Considered Equitable by All Users

- Examine whether a financing system can promote a more efficient use of the air traffic control system.
- Explore options: excise taxes, user charges, and borrowing/bonding. What are the oversight mechanisms? What legislative changes are required?



In February 2007, FAA submitted to Congress the Next Generation Air Transportation System Financing Reform Act of 2007. The agency is working with Congress to ensure timely passage of legislation to reauthorize FAA programs and revenue sources.

In developing the proposal, FAA conducted extensive reviews of its costs and activities, including analyses of cost drivers, in order to allocate costs to user groups appropriately. This enabled the agency to propose a set of user fees for commercial operators and fuel taxes for general aviation that more accurately reflect their respective use of the aviation system. FAA's proposal reflects expected spending requirements in the outyears and ties the rates of taxes and fees to those forecasts, based on cost allocation.

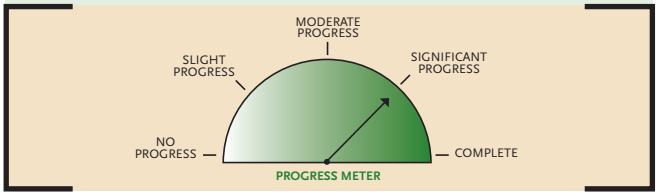
The combination of funding sources in FAA's reauthorization proposal will help improve the stability, fairness, and rationality of its funding without imposing a "one size fits all" solution. Both the user fees that commercial users would pay and the fuel taxes for general aviation are based on each user group's share of the air traffic control costs.

The proposal also provides incentives for users to employ resources efficiently, reduces cross-subsidization among user groups, and can be adjusted to account for the investment costs of NextGen in the near term and the efficiencies that NextGen will generate in the long term. The reauthorization proposal achieves these benefits through a hybrid financing structure that is cost based, yet allows each user group to pay through its preferred funding mechanism.

Working with OMB, FAA's FY 2008 budget is consistent with the reauthorization proposal. The FY 2008 Appendix to the President's Budget contains an illustrative example of what funding levels would be if user fees were established in FY 2008 to cover the costs associated with air traffic services and certification and licensing services. User fees would, under the reauthorization proposal, take effect in 2009. The forecasted growth of air traffic and the aviation sector's future needs impact both the planning and budgetary requirements of the agency in outyears.

Determining NextGen's Funding Requirements, Quantifying Expected Benefits, and Developing a Roadmap for Industry To Follow

- Key challenges for DOT, FAA, and the Joint Planning and Development Office (JPDO) focus on what JPDO can deliver and when and how much its proposals will cost.
- Provide Congress with expected funding requirements and when the funding will be needed. Focus on research and development, adjustments to existing projects, and estimates for implementing NextGen initiatives.
- Clearly define the expected benefits from NextGen initiatives, particularly for projects that require airspace users to equip new avionics.
- Provide to industry required equipage in time increments; bundle capabilities with benefits and required investments; use a 4- to 5-year equipage cycle linked to aircraft maintenance schedules.



The current NAS is reaching its limits and is increasingly unable to effectively respond to the ever growing demand for increased capacity. NextGen is our nation's response to the challenges faced by the aviation community. An undertaking as substantial and long term as NextGen requires a highly deliberate and integrated planning process that, in the near term, results in products that inform the architectural design, policy, and investment decision-making required to launch and implement NextGen.

The JPDO made marked progress in 2007 to develop and advance foundational products with cooperation and collaboration across Government. This is significant because a year ago the degree of inter-agency collaboration was not as extensive as it is today. In addition, development and coordination of the NextGen Enterprise Architecture benefited from guidance and support provided by OMB.

The JPDO delivered the *NextGen Concept of Operations (ConOps), Version 2.0,* and the *NextGen Enterprise Architecture, Version 1.0,* in June 2007. Together, both products detail the operational and technical performance requirements critical to the planning and implementation of NextGen. A third complementary product, the *NextGen Integrated Work Plan* (IWP), was released in July 2007. The IWP lays out the initial plan for transitioning from the current state to NextGen, considering policy, research and development, and investment needs, and illustrates when NextGen operational improvements will need to be achieved to deliver critical NextGen capabilities. The IWP's comprehensive nature contains implications for both Government and industry. Accordingly, stakeholders have been involved in its review and have engaged with the JPDO from the planning and implementation perspectives.

One of the JPDO's primary responsibilities is to inform policy makers on the resources necessary to realize NextGen. These resources include research and development (R&D) and capital investments, as well as the funding to support and sustain NextGen. To that effect, the *NextGen R&D Plan* (FY 2009–FY 2013) was released at the end of August 2007. It highlights the NextGen R&D requirements and associated partner agency and stakeholder responsibilities for executing the R&D activities specified in the plan. The importance of R&D, its funding, and key decision-making associated with potential development in support of mid-term NextGen operational capabilities, cannot be understated. For the highest priority R&D activities, development decisions associated with this research must be made by 2013.

In September 2007, the NextGen Exhibit 300 was submitted, for the first time, to OMB as part of the annual Federal budget request process. The NextGen Exhibit 300 centers on those investments that are critical to initiating NextGen in the near term so that cross-cutting capabilities and benefits can be realized in the mid term. The NextGen ConOps and Enterprise Architecture set the context for the NextGen requirements and inform investment analysis and decision-making.

The JPDO has started to understand and project the costs and benefits of NextGen. An estimated $4.6 billion will be required to fund NextGen research, development, and implementation activities through 2012. Current NextGen spending estimates for mid and long term range from $8 to $10 billion through 2017, and $15 to $22 billion through 2025. Cost estimates for equipping aircraft with NextGen technologies range between $14 and $20 billion through 2025. Estimates vary depending on the bundling of the technologies and the pace at which the current aircraft fleet is replaced. Next year, the JPDO plans to develop life-cycle costs for the required infrastructure beyond the initial 5-year period.

In 2007, JPDO also conducted an initial evaluation of the risks and benefits of alternative approaches to transformation, as defined in the JPDO operational improvements.

In 2008, NextGen life-cycle estimates for costs and benefits will be developed and included in the NextGen Exhibit 300.

Benefits of NextGen

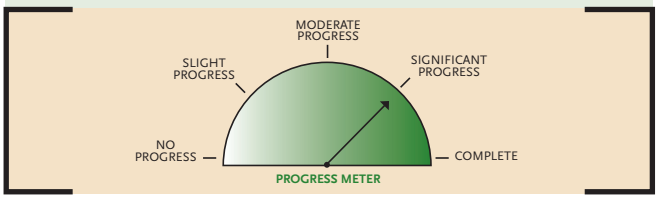
NextGen will provide many tangible benefits to users, customers, and Government agencies. Collectively, these JPDO products are valuable tools that foster collaborative planning and decision-making and provide the basis for integrated NextGen design and implementation.

The implementation of NextGen technologies is expected to reduce flight delays.
Credit: Jon Ross, FAA Image Library

- **Reduce FAA Costs and Improve User Efficiency, Situational Awareness, and Safety** by providing more timely en route management of flights and cockpit accessibility to highly accurate ground traffic information.
- **Improve Safety and Provide Higher Usage and Increased Access to Smaller and/or Secondary Airports** in more varied conditions for general aviation aircraft.
- **Reduce Flight Delays and Improve FAA Cost Efficiency and Safety** with high-performance trajectory-based operations and reduced spacing requirements.
- **Achieve Greater Capacity and Improved Environmental Performance** through the use of precision high-density operations.
- **Increase Flexibility and Satisfaction of User Flight and Operational Preferences** through improved collaborative flow management.

Continuing Efforts to Address the Expected Surge in Air Traffic Controller Attrition

- Planning by location is critical because FAA has over 300 terminal and en route air traffic control facilities with significant differences in types of users served, complexity of airspace managed, and levels of air traffic handled. Without accurate facility-level planning, FAA runs the risk of placing too many or too few controllers at key locations.
- Develop detailed cost estimates before the next submission of its staffing plan.



Both FAA and OIG appreciate the challenge of hiring an anticipated 15,000 Air Traffic Controllers—the number of controllers that will be brought on through 2016. The OIG acknowledges that the 2006 workforce plan addresses the magnitude of the issue and the measures to meet this challenge but expressed concern that the plan did not account for staffing needs by location or the costs associated with training controllers.

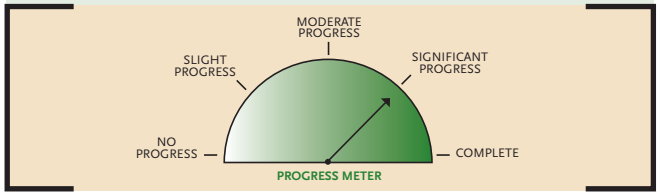
To address this challenge, FAA updated its comprehensive workforce plan in March 2007. The *2007 Controller Workforce Plan* now provides staffing ranges for each of FAA's 314 facilities. The ranges take into account not just the staffing standards generated from industrial engineering techniques, but also historical productivity, peer performance, and service and field unit input.

Current staffing levels are dynamic and can be affected by airport construction, controller training, and other issues. Future staffing levels are a function of traffic forecasts, hours of operation, attrition forecasts, and other variables. FAA continues to pay close attention to staffing at each facility and adjusts staffing levels accordingly.

The OIG also expressed concern that the *2006 Controller Workforce Plan* did not identify the annual developmental training costs of hiring new controllers. The *2007 Controller Workforce Plan* includes an estimate for total salary, premium, and benefit costs annually for all developmental controllers. Since controllers in training perform actual controller work as they become certified, these salaries are included in the personnel costs of FAA's budget request.

Using the Cost Accounting System To Control Costs and Improve Operations

- Make further progress in assigning labor hours to projects; document an understandable and readily available set of rules; and establish new and specific labor codes to track costs as duties change.
- Allocate FAA's costs to airspace users.
- Finalize and publish ongoing cost allocation study.
- Improve the accuracy and timeliness of financial data, link the system with performance measures, and assign about $1 billion in miscellaneous service-level costs (including depreciation) to facilities.



FAA's CAS is an accounting system designed to report the total cost of delivering FAA products and services. CAS calculates all FAA costs by projects and tasks. In 2007, FAA made a concerted effort and significant progress in improving the reliability of its cost data and in allocating those costs to NAS users. Previously, FAA established a fundamental requirement that employees ensure accurate, consistent, and complete entry of labor distribution reporting data in accordance with the Labor Distribution Reporting (LDR) Policy. FAA managers and supervisors are primarily responsible for ensuring the compliance and integrity of LDR data entry. In addition, LDR Quality Assurance Resources and Timekeepers help by providing added focus, guidance, and support for ensuring data integrity. The policy states, in part, "The FAA will collect paid hours worked by each employee, manager, and executive against identified projects and activities. No manager may excuse employees from compliance with this LDR policy."

In FY 2007, FAA targeted 92.5% of labor hours to be charged to valid projects and activities. Corporately, FAA achieved a final rate of 95%. The ATO made a significant effort to record its labor and achieved a rate of 97%. In FY 2008, the corporate goal will be 95%. FAA has sustained a corporate compliance rate at or near 95% for a year now, so we expect to exceed this goal again.

This labor distribution compliance rate is routinely reported to the Administrator on a monthly basis in an executive scorecard. Also, as part of the monthly executive scorecard, FAA introduced a new reporting requirement that each line of business must report back to the CFO within 90 days describing how cost accounting data are being used to manage costs.

To ensure that cost data are current, FAA established new project codes for management to use to track the cost of a project or activity. This is an ongoing activity based on the need to better understand the cost of FAA operations. Customers are routinely consulted to incorporate system change requests into future CAS releases and improve CAS managerial cost reporting.

Improving the accuracy and timeliness of capitalization costs was a major effort during the past year. This has affected the reliability and timely recording of operating cost data because all agency expenditures are classified as either operating

or capital. FAA conducted an intensive review of its CIP balance and introduced policy/procedural changes, along with training, to ensure the agency keeps capitalization efforts current. In addition, we instituted several metrics to keep management informed on the status of its capitalization workload. The agency continues to implement financial metrics to ensure improved overall financial performance.

In February 2007, FAA published its cost allocation study of 2005 air traffic costs.[2] The cost allocation study found that

- Users who pay the commercial excise taxes, including those on air taxis and fractional ownership flights, are responsible for roughly 73% of air traffic control costs.
- Those who pay the general aviation fuel taxes account for approximately 16% of air traffic control costs (not including flight service stations).
- Public users account for about 5% of the costs.
- Flight service stations account for roughly 6% (although this share is expected to decrease in future years).

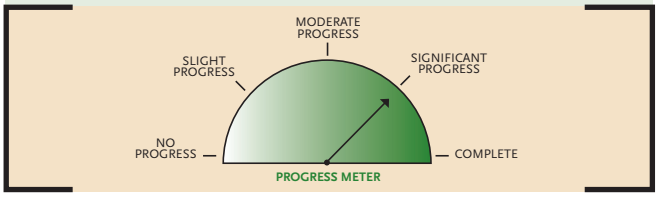
In contrast, commercial excise taxes account for nearly 97% of the AATF revenue, while general aviation fuel taxes account for just over 3% of AATF revenue under the current tax system. Every cost allocation study we have conducted over the past three decades has found that general aviation is responsible for at least 11% of air traffic costs.

Cost allocation forms the basis for the financing reforms the agency is advocating. In the cost-based funding proposal that FAA submitted to Congress in February 2007, we used the cost allocation results to determine what shares of air traffic control funding should come from commercial users, general aviation users, and the general fund. For the user fees that commercial users would pay under our proposal, FAA would use the cost allocation data to determine the rates of the en route distance-based fee, the oceanic distance-based fee, and the terminal fees for different sizes of airports. The cost allocation facilitates these calculations by dividing air traffic costs into domestic en route, oceanic, large hubs, medium-sized towers, and low activity towers.

Challenge: *Aviation Safety—Performing Oversight That Effectively Uses Inspection Resources and Maintaining Aviation System Safety*

Advancing Risk-Based Oversight Systems for Air Carriers and External Repair Facilities

- Gather more information about the type of work non-FAA certificated repair facilities perform and determine what range of actions is required to improve oversight of these facilities.
- Ensure FAA inspectors are well-trained and located in areas of greater need.
- Fully implement risk-based oversight approach to FAA-certificated repair stations.
- Inventory air carrier maintenance providers and identify which non-certificated facilities perform critical maintenance functions and scheduled maintenance. Based on the results of the inventory, make a determination as to whether it should limit the type of work non-certificated facilities can perform.
- Evaluate air carrier training and oversight programs for work performed at non-certificated facilities.



[2]The final FY 2005 report, as well as many of the data that went into it, is publicly available on the Internet at **www.faa.gov/regulations_policies/reauthorization/**.

The Air Transportation Oversight System (ATOS) is FAA's business process for oversight of the 14 Code of Federal Regulations (CFR) Part 121 air carriers. ATOS improves the Certification and Surveillance processes for air carriers, and it assesses the safety of air carrier operating systems using system safety principles, safety attributes, risk management, and structured system engineering practices. FAA is on schedule to have all of the current 120 air carriers regulated under 14 CFR Part 121 transitioned to ATOS by the end of 2007.

ATOS has been redesigned to provide the flexibility necessary to manage the multitude of tasks necessary to evaluate the operations of small and large air carriers and their diverse operating environments. The redesign allows inspectors to identify risks in each air carrier's operation and, on that basis, target resources to stay abreast of the rapid changes occurring in the industry. The new process and software have been tested at three key sites—United Airlines, Colgan Air, and Aerodynamics—and are now being adopted throughout the system. FAA offices are also being staffed and reconfigured to efficiently use inspector resources in conjunction with these conversions. All ATOS users will receive training on the new process and software.

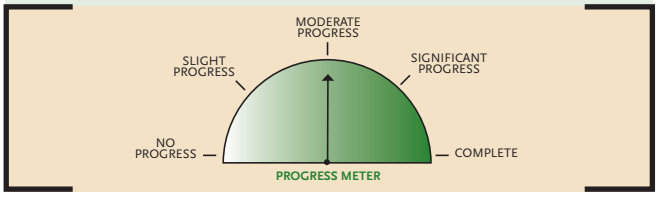
FAA continues to improve its risk-based oversight system. A risk assessment/risk-based oversight system for repair stations was fully implemented in September 2005. This oversight system provides for continuous assessment and prioritization of each repair station and non-certificated repair facility. In October 2006, FAA issued the "Air Carriers Outsource Maintenance Provider Oversight Responsibilities" bulletin providing guidance to principal inspectors assigned to 45 CFR Parts 121 and 135 air carriers who outsource some or all of their maintenance to other persons including non-certificated repair facilities. These instructions provided additional oversight of each air carrier's outsourced maintenance arrangements and were issued in conjunction with revisions to FAA 8300.10, *Airworthiness Inspector's Handbook*.

In April 2007, Notice 8000.362 became effective, requiring principal inspectors to evaluate the air carrier's outsourced maintenance programs to ensure work performed by certificated and non-certificated repair facilities is accomplished within the scope of the contract and in compliance with the air carrier's maintenance instruction for continued airworthiness. The notice also requires evaluation of the air carrier's oversight, authorization, and training procedures for non-certificate repair facilities.

FAA is currently revising Operations Specification D-91, requiring air carriers to list all certificated and non-certificated repair facilities performing outsourced maintenance and will publish the final rule by the mandated date of August 16, 2008. FAA believes the redesign of ATOS, the risk-based oversight system implemented in 2005, and the additional guidance published in 2006 and 2007 allow for effective oversight without limiting the work done at non-certificated repair facilities.

Maintaining a Sufficient Inspector Workforce

- Ensure close monitoring of retirements and take steps to hire and train the next generation of safety inspectors.
- Evaluate inspector staffing levels to ensure they can sustain sufficient oversight in light of the potential attrition within that workforce.



FAA is developing short- and long-term strategies to address safety workforce staffing. In May 2007, FAA's AVS provided to Congress a 10-year *Aviation Safety Workforce Plan*. This plan ensures an adequate safety staff is maintained to address oversight needs and addresses inspector attrition and anticipated changes in the aviation industry. The workforce plan also addresses the competencies and skills required for staying abreast of new technologies and to successfully perform in a Safety Management System (SMS) work environment.

FAA closely monitors retirements and takes steps to hire the next generation of safety inspectors. We also evaluate inspector staffing levels to ensure the Flight Standards Service and Aircraft Certification Service can sustain sufficient oversight as a result of potential attrition within the workforce.

In January 2007, FAA received a copy of the *Aviation Safety Inspector Staffing Standards Study* prepared by the National Research Council of the National Academies. In response to the recommendations in this study, FAA tasked an independent contractor to conduct a phased approach to the design, development, and implementation of a new automated, demand-driven staffing model. The contractor will conduct a baseline analysis of the aviation safety inspector workforce and identify productivity measures. Specifically, the contractor will develop a staffing model with the capability to perform "what if" scenarios that build on customer demands and changing employee skill sets and can support an evolving safety management system culture of the future. The project design, development, and training are estimated to be completed in the next 24 months.

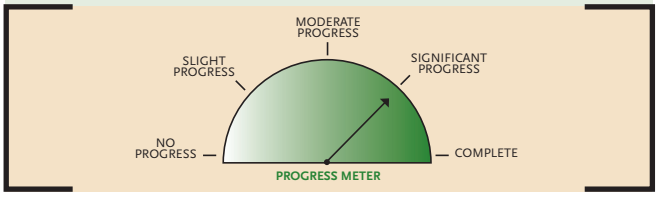
By the end of 2007, increased inspector resources will allow FAA to transition all Part 121 air carriers to the Air Transportation Oversight System. This risk-based, commercial aviation safety oversight system is increasing the effectiveness of FAA safety oversight efforts by developing safety surveillance plans for air carriers based on data analysis. The FY 2008 President's Budget would provide an additional 241 new safety positions in AVS, including 90 new inspectors for increased oversight and surveillance activities.

Currently, the most significant impact on the workforce is the evolution of the risk-based system and increased oversight of designees. While these challenges do not demand significantly more or fewer inspectors, they do demand a different skill set. The overall management strategy to meet future oversight requirements focuses on three areas: training current AVS inspectors to help manage the transition to a SMS; changing the AVS culture to accept the transition to an SMS; and hiring the right people with the right skills to work in the future aviation environment.

FAA has also established recruitment plans to fill our most critical occupations. We are working with technical schools to fill entry-level positions. We have ongoing efforts with minority- and women-focused technical publications and associations to ensure positive publicity for FAA and AVS, as well as to enhance recruiting opportunities. By the end of 2007, increased inspector resources will allow FAA to transition all Part 21 air carriers to the ATOS. This risk-based, commercial aviation safety oversight system is increasing the effectiveness of FAA safety oversight efforts by developing safety surveillance plans for air carriers based on data analysis. We currently have a large pool of qualified aviation safety inspectors available for recruiting. We anticipate that even with the new skill set requirements, there will be enough candidates to select the needed inspectors in the future.

Reducing the Risk of Accidents on the Ground and in the Air

- Address efforts to automate TRACON facilities to correct operational error reporting based on an unreliable system.
- Identify an accurate baseline for the number of operational errors that are actually occurring.



One of the fundamental principles of aviation safety is separation—the need to maintain a safe distance from other aircraft, terrain, obstructions, and restricted airspace. Air traffic controllers employ rules and procedures that define separation standards for this environment. An operational error occurs when there is a loss of separation between aircraft or aircraft and other objects.

Reducing the risk of operational errors is one of FAA's top priorities as traffic continues to increase.

FAA's Air Traffic Organization (ATO) is developing and implementing an automated software application that will depict Air Traffic Control (ATC) separation conformance in both the terminal and en route environments nationwide. The Traffic Analysis and Review Program (TARP) will apply separation logic to targets; identify where applicable separation standards are not being maintained; and highlight incidents for further investigation. This will be accomplished by utilizing TARP replay features to review radar and voice data to analyze potential operational errors. The TARP Program Management Plan, which details the implementation schedule, resources, and budget, was coordinated and signed by ATO Safety, Terminal, and Acquisition and Business Services.

All terminal sites have been selected for calendar year 2007 and deployment is on track to meet FAA's *Flight Plan* objective to enhance the safety of FAA's air traffic systems. Software development to allow TARP to use National Offload Program (NOP) data in the En Route environment has begun. En route mainframe data from select Air Route Traffic Control Centers (ARTCCs) are being tested and analyzed for use by TARP. In addition, development of the en route NOP playback capability is complete and deployment is expected to commence in November 2007.

In June 2007, ATO completed its Automated Safety Initial Performance Implementation Plan for all applicable en route and terminal facilities. The development of a NextGen safety performance measurement tool for the en route environment will also be completed in 2007. This course of action will ensure FAA has a meaningful baseline for operational errors (OEs) and allow consistent reporting of operational errors.

In FY 2007, the performance target was to reduce the rate of Category A and B (most serious) operational errors to no more than 4.27 per million activities. We ended the fiscal year with a rate of 4.08 (preliminary) per million activities for Category A and B operational errors. As the ATO continues to improve OE causal data, the improved information we receive will enhance the way we manage our system. By 2010, the OE performance metric calls for a reduction in Category A and B operational errors to a rate of no more than 3.18 per million activities.

FAA has historically tried to understand and mitigate the incidence of OEs, focusing on the critical component of the system—the closest person to the air traffic situation and the last point of prevention—the air traffic controller. We focused attention on implementing a coordinated system of investigations to identify causal factors, fielding automation to re-create events, developing metrics to categorize OE severity, and sponsoring unique performance enhancement programs.

Specifically, during FY 2007 FAA has been working to improve how the severity of operational errors is calculated. We began implementation of a new system to classify OEs and instituted a 10% performance tolerance on minimum separations to better understand and measure our safety performance. These changes allow us to take full advantage of advances in technology that now permit separation measurements to a hundredth of a mile (60 feet) and allow us to capture more events that approach the edges of the separation standards.

The new measurement process, referred to as the Separation Conformance (SC), measures the severity of the outcome of the OE as a result of the percent of required separation that was maintained. When the SC is measured in combination with the number of operations, it creates a reliable rate-based measure of safety. Further, the new measurement system minimizes the number of criteria used to determine OE severity, minimizes subjectivity, and allows for better analysis of same category events—all of which enhance safety conclusions. With these changes we now measure the proximity between two aircraft, which best characterizes the actual risk of collision. FAA is currently testing the new severity tool, which will be implemented in FY 2008. FAA is also developing an index to describe the central tendency and variance of the event. The index will allow FAA to measure performance over a period of time, similar to a stock index. This new measure will provide indicators that reflect both the risk of collision and the degree to which separation standards were maintained.

Also in 2007, FAA modified the evaluation process by which it audits and performs assessments of ATC facilities in order to reduce OEs and focus on system risks. FAA will review radar and voice data tools as part of its Air Traffic Safety Quality Assurance Order, as well as disseminate initial evaluations and audit data derived from the Facility Safety Assessment System to ATO terminal and en route facilities.

To enhance air traffic supervisor and controller discussion of serious events during team briefings, safety clips will continue to be developed using actual air traffic control incidents. These video clips will use video reenactments, replays of radar/voice, references, and narration of safety enhancement messages. Targeted subject matter is derived from areas such as daily reviews of operational errors and operational deviations, collisions, facility evaluations, and customer feedback. These safety awareness tools promote and support FAA's safety culture by

- Helping controllers visualize an event that actually happened
- Aiding the development of strategies based on intuitive and experiential expertise for use in similar situations
- Creating an objective examination of air traffic events and the service that FAA provides to its customers
- Continuously assessing individual, team, facility, and organization performance

ATO Safety Services will also continue to expand its Crew Resource Management (CRM) program designed to help avoid, detect, and correct system, team, controller, or pilot breakdowns before they result in operational errors or accidents. CRM principles and methods are operationally-relevant, facility-specific behaviors that focus on threat and error management as well as on individual and team performance. The CRM program topics will include situational awareness, safety vigilance, best practices, vulnerabilities, and countermeasures. CRM behaviors are presented in the initial one-day workshop for all air traffic personnel and in the Operational Supervisor's workshop. Follow-up and reinforcement actions to ensure that CRM is embedded in the daily operations and safety cultures of each facility include CRM posters, facility action plans, DVDs, monthly newsletters, quarterly refreshers, and recurrent training workshops.

CRM is an operationally relevant workshop that focuses on teamwork and individual performance such as situational awareness and safety vigilance. The course also focuses on threat and error management, vulnerabilities, and countermeasures. In 2007, FAA delivered CRM workshops, posters, and follow-up support to personnel at several towers and TRACONS. In most cases, air traffic control personnel from nearby facilities also attended. FAA also completed a CRM behaviors lesson in the Operational Supervisors' Workshop in September 2007, and CRM training for Tower and Terminal Radar new hires at the FAA Academy in September 2007.

Based on initial feedback, FAA continues to refine the current CRM training as well as courses designed for specialists who are trained, and in turn provide CRM training to others. A CRM beginner's DVD, "Human Factors 101 for Air Traffic Controllers," will be distributed in March 2008 to be completed by Tower controllers by June 2008, and by TRACON and En Route controllers by September 2008.

Runway incursions (RIs) occur in the airport runway environment when an aircraft, vehicle, or person on the ground creates a loss of required separation with an aircraft. RIs present a serious risk to aviation and have resulted in collisions and fatalities. Reducing the risks of runway collisions and incursions is a top priority of FAA. In order to reduce the severity, number, and rate of runway incursions, FAA continues to mitigate the errors that contribute to collision risks. The agency has been aggressively addressing the issue and has made progress toward reducing the most serious incidents, particularly those involving commercial aircraft.

In FY 2007, our goal was to reduce the rate of Category A and B runway incursions at towered airports to 0.530 per million operations, or a total of 32. There were only 24 (preliminary) Category A and B runway incursions—8 under the performance target. By 2010, the ATO's goal is to limit Category A and B runway incursions to a rate of no more than 0.450 per million operations. Further, the number of serious runway incursions has been reduced by more than 50% over the past 6 years.

FAA continues to conduct Runway Safety Action Team (RSAT) meetings, pilot seminars, flight instructor refresher courses, commercial flight instructor and designated pilot examiner refresher courses, and airport safety meetings. The purpose of an RSAT is to provide an opportunity to emphasize the importance of runway safety and communication among users. Preventive measures to reduce runway incursions include training on airport infrastructure for new controllers, runway training on airport signage and markings, adherence to proper phraseology, read-back/hear-back requirements for controllers and pilots to ensure understanding of directions, review of hot spots, quality assurance reviews, and review and audit of tapes.

In FY 2007, FAA continued with the runway status lights program and installed Airport Surface Detection Equipment Model X (ASDE-X), a new runway safety tool that combats the risk of runway incidents on runways and taxiways, at Louisville International Airport and Charlotte Douglas Airport. Ongoing activities to reduce the risk of runway incursions included improvements to air traffic controller, pilot, and vehicle driver awareness, as well as airport infrastructure and technology enhancements.

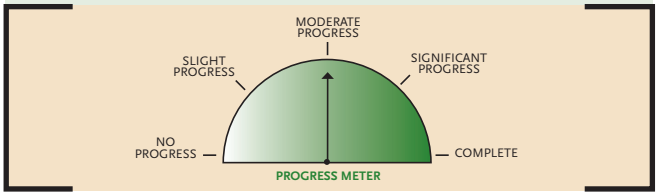
Further, in August 2007, in response to a recent rise in runway incidents, the agency sponsored a high-level meeting with 40 aviation industry leaders to brainstorm remedies for reducing runway incursions. The meeting focused on identifying short-term steps that could be implemented within 30 to 60 days. The recommendations center on improved procedures, increased training for airline personnel, and more rapid deployment of technology that could reduce runway incursions.

In the longer term, FAA will look toward technological solutions, including the deployment of runway status lights in conjunction with ASDE-X. The agency will also take a close look at the performance of two lower-cost ground surveillance systems currently being tested and evaluated in Spokane. Both systems provide cost-effective alternatives to ASDE-X and can be installed in less than a week. While not as sophisticated as ASDE-X, they provide incremental situational awareness for controllers.

Challenge: *Improving Acquisition and Contract Management To Reduce Costs and Eliminate Improper Payments*

Promoting More Vigilance and Enhanced Oversight of FAA's Acquisition and Contract Management Practices

- Strengthen oversight of acquisitions to ensure that procurement and contracting officials implement the agency's Acquisition Management System (AMS) regulations and guidance—specifically program structure—and use common labor categories and qualifications, leverage Government's buying power by pre-competing labor rates, and improve price analysis.



The Contract Oversight function was established within the Contract Oversight Group in the fall of 2006. The new function provides oversight and evaluation of contract operations within FAA. In February 2007, FAA's Acquisition Executive (FAE) directed that the National Acquisition Evaluation Program (NAEP) (formerly known as National Program Evaluation) be established in the agency. The mission of NAEP is to improve acquisition and contract management, enhance the quality of financial documentation, reduce acquisition cost,

eliminate improper payments, and curtail waste, fraud, and abuse of funds.

An AMS policy change establishing NAEP was developed, approved by the Administrator, and incorporated into the AMS in July 2007. The AMS change states, "The National Acquisition Evaluation Program provides oversight of FAA acquisition management through the evaluation of contracts, programs, and acquisition management practices. The goal is to ensure consistent implementation of AMS policy and guidance by FAA offices and to identify innovative processes or opportunities for improvements. Recommendations based on findings are tracked to closure to promote continuous process improvement and procurement integrity."

In March 2007, the NAEP Team, composed of representatives from all contracting organizations within FAA, was formed. The NAEP team developed Standard Operating Procedures (SOP) to be followed by evaluation teams in conducting contract and program evaluations. The SOP provides detailed guidance on how contract evaluations are to be performed. It specifies the required contents of an evaluation report, including the development of specific recommendations for contract management improvements. It also includes a requirement that the recommendations are addressed, mitigation strategies are developed, and planned improvement activities are tracked to closure.

The team also developed an Evaluation Work Plan that lists proposed contract evaluations that are to be conducted over the next 3 years. The list of proposed evaluations was developed using the recommendations provided by DOT's Inspector General in the Audit of FAA's *RESULTS National Contracting Service Report* issued in September 2006, as well as recommendations from the FAA's Acquisition Executive. The SOP and Evaluation Work Plan were presented to the FAE for approval in June 2007.

In May 2007, a comprehensive evaluation of the Alaskan Region's contracting activities was conducted, in conjunction with the ARC Procurement Evaluation Program, to uncover problems in contract management and to obtain commitments from contract management to develop and implement plans to address the problems. The results of the evaluation are documented and filed for follow-up activities. The follow-up activities will be monitored and tracked to ensure completion.

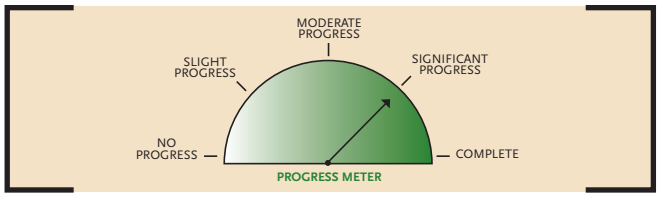
In June 2007, the NAEP team began to develop its first evaluation report on the results of a yearly assessment of the consistency between the hiring of contractor personnel as compared to the labor categories and rates contained in support services contracts. The annual report will be issued in November 2007.

In addition, an effort is underway to address a recommendation from the RESULTS audit to improve the quality of the financial work performed by contracting staff, particularly around price analysis. The Acquisition Policy and Contracting Director is in the process of establishing a support services contract vehicle to be used to hire contract support to assist the contract officers and specialists in conducting price analysis. This contract, along with the additional experienced contract officers, will strengthen FAA's capacity to conduct price analysis before contract awards.

Challenge: *Protecting, Monitoring, and Streamlining Information Technology Resources*

Enhance Air Traffic Control Systems Security Through Resource Commitment and Progress Measurement

- Security reviews of all operational air traffic control systems at en route, approach control, and airport control systems.
- Evaluation of security differences between systems used to direct air traffic at terminal and tower facilities and the baseline systems previously tested in FAA's computer laboratory.
- Implementation of contingency strategy to deal with prolonged service disruptions.



In FY 2007, FAA met the statutory requirement to recertify its IT systems on their 3-year anniversaries or upon major system change. Specifically, FAA recertified 100% of its 84 IT systems, including the air traffic control systems. FAA's remaining systems will undergo annual self-assessments as prescribed by the National Institute of Standards and Technology (NIST). FAA also revised the Certification and Accreditation Handbook to reflect NIST guidelines and standards, and remediated 25 of the 60 high-risk vulnerabilities to date. FAA also continues to strengthen security protections of ATC systems by conducting ATC field facility reviews. In FY 2007, 10 facility reviews were completed.

In FY 2007, FAA transitioned the Business Continuity Plan (BCP) from planning to implementation. The purpose of the BCP is to contemplate and address potential prolonged service disruptions at en route centers. BCP implementation is being executed by a multi-service, multi-disciplinary engineering team. Also, the BCP budget baseline was established, funding was secured, and a spending plan was submitted for FY 2007 and FY 2008.

Additionally, FAA established the Business Continuity Program Office to address long-term outages. The Business Continuity Board of Directors was established and consists of Executive Directors from every FAA stakeholder service unit. The Board meets monthly to ensure adequate resources, resolve disputes, and maintain the BCP program scope and schedule. There are nine working groups to address BCP technical capabilities, procedures, documentation, and staffing concerns.

Primary infrastructure is already in place to provide BCP services. En Route BCP operational requirements are being validated with field ARTCCs. FAA will provide all mission-essential services for the affected facility with a goal to reconstitute operations at 80% of previous capacity within a 3-week period. To address contingency operations at all operational facilities in the event of short-term outages, FAA has published Order 1900.47B. This order calls for tabletop exercises to involve FAA's Command Center as well as all major terminal and en route facilities. The order also requires that contingency plans be updated for easy transfer.

The operations community has direct involvement in solution implementation. Initial capability demonstrations for data communications, including both radar and flight data, are also underway. Voice communications infrastructure, including the Voice Switching and Control System (VSCS), VSCS Training and Backup Switch, and Radio Control Equipment, are being configured and installed to support both air-to-ground and ground-to-ground voice communication.

As the OIG noted, in October 2006, FAA's CIO and the ATO planned to evaluate security differences between ATC systems in the terminal and tower environments. Specifically, FAA had planned to visit a significant number of facilities to audit security differences between systems in the field relative to laboratory conditions. However, after thorough study, FAA concluded that the return on investment would not support the expected cost, which would exceed $2.5 million. This decision was also supported by results of similar efforts at en route facilities. At en route centers, there was less than a 10% variance.

MANAGEMENT INTEGRITY: CONTROLS, COMPLIANCE, AND CHALLENGES

Every year, FAA program managers in the lines of business and staff offices assess the vulnerability of their program and activity management controls. On the basis of these assessments, reviews are conducted to determine their compliance with sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA). The head of the line of business or staff office then identifies in writing to the Administrator any potential material internal

control weakness or system nonconformance. Those deemed material are consolidated in a memorandum with a Statement of Assurance signed by the Administrator and sent to the Secretary of Transportation. Our response becomes a part of the DOT Statement of Assurance sent to the President. To help resolve material weaknesses or nonconformances, we have developed a corrective action plan with specific milestones and deadlines. The plan and the status of each action are reviewed monthly, with results reported to OST.

In a October 26, 2007, memorandum, the Acting Administrator reported to the Secretary a qualified statement of assurance due to the limited scope of the processes tested this year and a material weakness in the timely processing of transactions and accounting for Property, Plant, and Equipment, including the CIP account. Last year, we had one material weakness for capitalization of property. This year we completed a comprehensive review of the Construction in Progress account during this period to address the material weakness identified last year. We contracted for an independent review of the capitalization and burdening processes to improve and standardize activities throughout the FAA. This has resulted in the development of the capitalization "To Be" business process we will be implementing in FY 2008. We believe these actions will correct the material weakness while improvements in the process are ongoing. We are still working on the major challenge of timely capitalization and retirement of assets.

MANAGEMENT ASSURANCES

Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement—Fiscal Year 2007

The Federal Aviation Administration is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA and OMB Circular A-123, Management's Responsibility for Internal Control. These objectives are to ensure:

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

Internally, we assess the vulnerability of our programs and systems through FMFIA of 1982. We are pleased to report that, taken as a whole, the management controls and financial management systems in effect from October 1, 2006, through September 30, 2007, provide reasonable assurance that the objectives of both sections 2 and 4 of FMFIA are being met. Management controls are in place and our financial systems conform to Government-wide standards.

In addition, FAA conducted its assessment of the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of its annual financial statements as well as safeguarding of assets and compliance with applicable laws and regulations governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, in accordance with the requirements of Appendix A of OMB Circular A-123. The results of this evaluation provide reasonable assurance that FAA's internal control over financial reporting was operating effectively as of September 30, 2007, with the exception of the material weakness in timely processing of transactions and accounting for Property, Plant, and Equipment, including the CIP account. FAA is reporting a scope limitation for its assurance statement on internal control over financial reporting due to the two-year implementation of Appendix A. Due to the limited scope of the processes tested this year and the material weakness, the FAA is issuing a qualified statement of assurance.

Robert A. Sturgell
Acting Administrator
November 5, 2007

GRANTS MANAGEMENT POLICIES AND PRACTICES

Decisions on distributing Airport Improvement Program (AIP) funds are centralized at FAA Headquarters, with significant input from regional offices. While most of the day-to-day decisions for AIP project formulation are delegated to regional offices, FAA Headquarters develops the policy to ensure that grants are implemented appropriately and that grantees are treated consistently. Policies for administering the program are included in an AIP handbook, which is regularly updated through Policy Guidance Letters issued to grant recipients. FAA also ensures the consistent implementation of AIP by participating in airport industry trade conferences and training, posting statutory and policy changes on our public website, and requiring employees to attend annual training that focuses on improving business processes and updating personnel on policy changes.

We meet regularly with eligible airport sponsors to identify planning and development needs. Through this process, the Airport Capital Improvement Plan, a 5-year plan that identifies the planning and development needs for airports nationwide, is developed, and eligible projects are prioritized. Only projects identified in this plan are awarded grants. After a project has been identified, the airport sponsor can apply to the FAA regional or district office for a grant. We continue to support the development of an electronic grant application process. Typically, large grants are coordinated with other Federal, state, and local government agencies, such as the Environmental Protection Agency, the Department of Defense, and state aviation agencies.

AIP administration, including the requirements for sponsor and project eligibility, is based on multiyear authorizing legislation. In FY 2003, we recommended statutory changes to AIP's authorizing legislation that were approved for FY 2005. Revisions included changes to funding levels for airports and projects, changes to the formula for determining funding levels, and revisions to the grant process to address environmental and construction issues and to give smaller airports more flexibility in qualifying for certain types of grants.

FINANCIAL HIGHLIGHTS

Discussion and Analysis of the Financial Statements

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

FY 2007 Financial Statement Audit

The Chief Financial Officers Act of 1990 (Public Law 101–576), as amended by the Government Management Reform Act of 1994, requires that financial statements be prepared by certain agencies and commercial-like activities of the Federal Government and that the statements be audited in accordance with Government auditing standards. FAA is required to prepare its own financial statements under OMB Bulletin No. 07–04, Audit Requirements for Federal Financial Statements. DOT's OIG is statutorily responsible for the manner in which the audit of FAA's financial statements is conducted. The OIG selected KPMG LLP, an independent certified public accounting firm, to audit FAA's FY 2007 financial statements. This firm also audited FAA's FY 2002–FY 2006 financial statements.

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

Based on the restatement of FAA's FY 2006 financial statements, which adjusted FAA's Construction in Progress (CIP) balance, KPMG LLP has now rendered an unqualified opinion for that year. KPMG LLP has also rendered an unqualified opinion on FAA's FY 2007 financial statements.

Understanding the Financial Statements

FAA's Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of FAA, pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The following section provides a brief description of (a) the nature of each financial statement and its relevance to FAA, (b) significant fluctuations from FY 2006 to FY 2007, and (c) certain significant balances, where necessary, to help clarify their link to FAA operations.

Balance Sheet

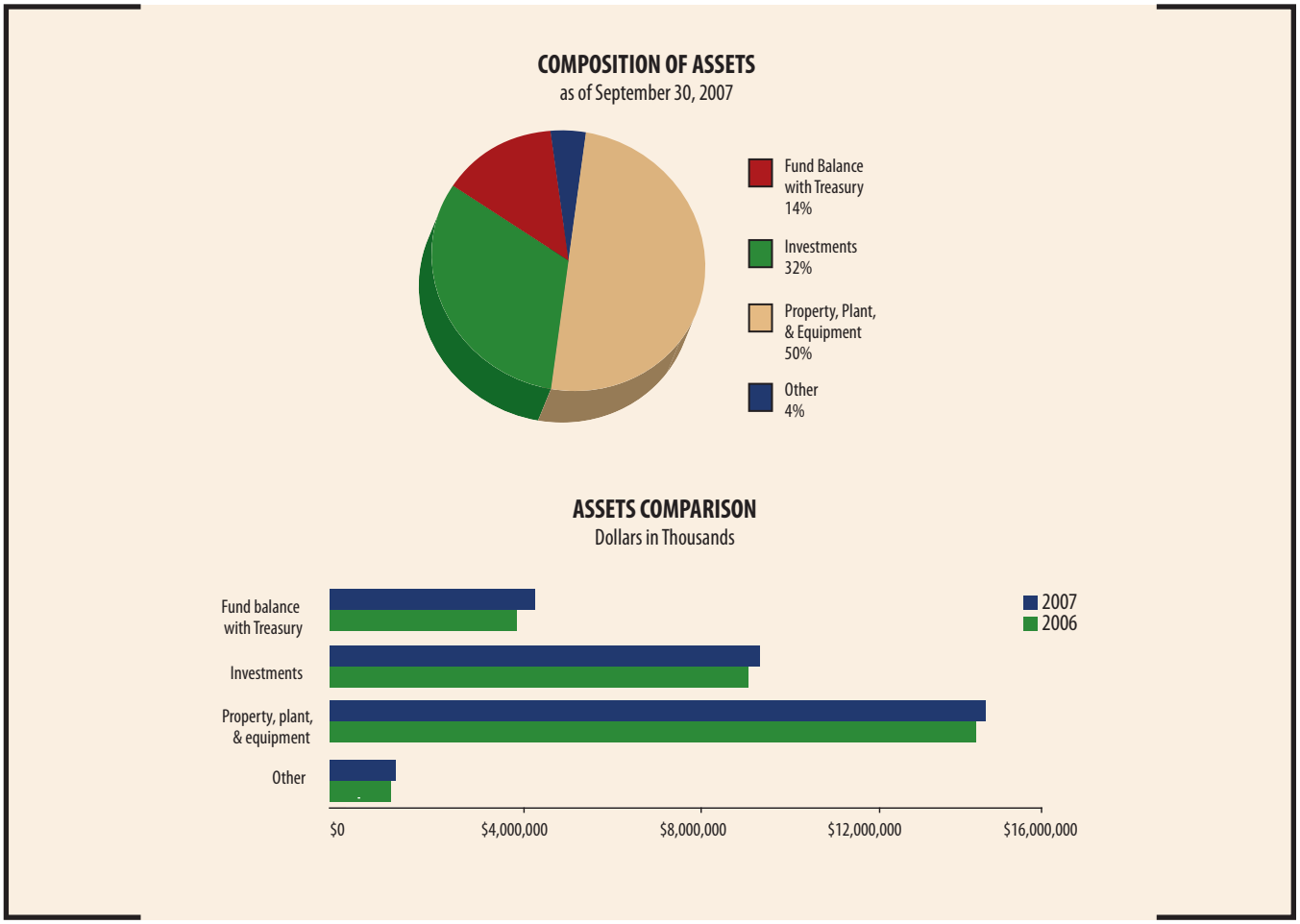
The balance sheet presents the amounts available for use by FAA (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

Assets

Total assets were $27.7 billion as of September 30, 2007. FAA's assets are the resources available to pay liabilities or satisfy future service needs. The *Composition of Assets* chart depicts major categories of assets as a percentage of total assets.

The *Assets Comparison* chart presents comparisons of major asset balances as of September 30, 2006 and 2007.

Fund balance with Treasury (FBWT) represents 14% of FAA's current period assets and consists of funding available through Department of Treasury accounts from which FAA is authorized to make expenditures to pay liabilities. It also includes passenger ticket and other excise taxes deposited



to the Airport and Airway Trust Fund (AATF), but not yet invested. Fund balance with Treasury increased $400.9 million primarily because of timing differences between investments of excise tax receipts, the timing of redemptions of investments to fund FAA disbursements, and the actual confirmation of disbursements by the Department of Treasury.

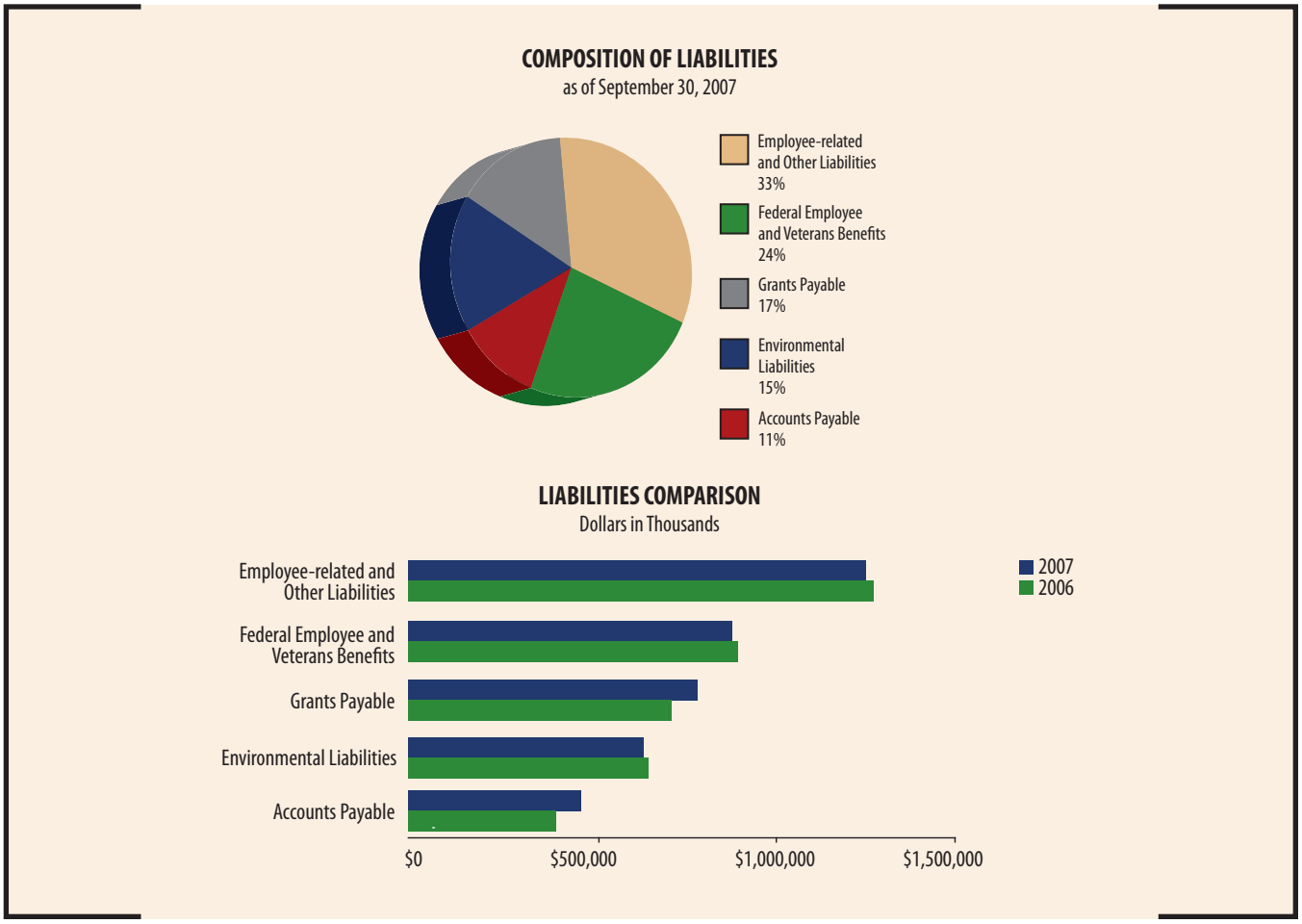
At $8.9 billion, *Investments* represent 32% of FAA's current period assets and are principally derived from passenger ticket and other excise taxes deposited to the AATF. These amounts are used to finance FAA's operations to the extent authorized by Congress. Investments increased by $229.6 million. The increase was primarily due to the fact that excess tax revenues collected have exceeded the annual funds appropriated from the AATF, leaving more funds available for investments.

At $13.9 billion, *Property, plant, and equipment, net* (PP&E) represents 50% of FAA's assets as of September 30, 2007, and is primarily composed of construction-in-progress related to the development of NAS assets, and capitalized real and personal property. There was an increase of $.2 billion in the total composition of PP&E as purchases of equipment and additions to CIP through the normal course of business were offset by retirements, depreciation, and CIP corrective actions during FY 2007.

Liabilities

As of September 30, 2007, FAA reported liabilities of $3.8 billion. *Liabilities* are probable and measurable future outflows of resources arising from past transactions or events. The Composition of Liabilities chart depicts FAA's major categories of liabilities as a percentage of total liabilities.

The *Liabilities Comparison* chart below presents comparisons of major liability balances between September 30, 2006, and September 30, 2007. Below is a discussion of the major categories.



At $1.2 billion, *Employee related and other liabilities* represent 33% of FAA's total liabilities. These liabilities remained stable and as of September 30, 2007, are comprised mainly of $148.4 million in Advances Received, $199.2 million in Federal employee's compensation act payable, $257.9 million in Accrued Payroll and Benefits, $456.1 million in Accrued Leave and Benefits, and $72.1 million in Capital Lease Liability.

At $884.0 million, *Federal employee and veterans benefits* represent 24% of FAA's current year liabilities and consist of FAA's expected liability for death, disability, and medical costs for approved workers' compensation cases, plus a component for incurred but not reported claims. The Department of Labor (DOL) calculates the liability for DOT, and DOT attributes a proportionate amount to FAA based on actual workers' compensation payments to FAA employees over the preceding 4 years. This liability is updated an on annual basis at year end.

Environmental liabilities represent 15% of FAA's total liabilities, and were relatively stable at $566.9 million as of September 30, 2007, compared with $573.3 million a year earlier. Environmental liabilities include a component for remediation of known contaminated sites and the estimated environmental cost to decommission assets presently in service.

FAA's *grants payable* are estimated amounts incurred but not yet claimed by Airport Improvement Program (AIP) grant recipients and represent 17% of liabilities. Grants payable increased $104.0 million on a comparative basis. *Accounts payable* increased $134.1 million and are amounts FAA owes to other entities for unpaid goods and services.

Statement of Net Cost

The Statement of Net Cost presents the cost of operating FAA programs. The gross expense less any earned revenue for each FAA program represents the net cost of specific program operations. FAA has used its cost accounting system to prepare the annual Statement of Net Cost since FY 1999.

As of September 30, 2007, and September 30, 2006, FAA's net costs were $14.8 billion and $14.1 billion, respectively. The *Composition of Net Cost* chart illustrates the distribution of costs among FAA's lines of business.

The *Net Cost Comparison* chart on page 49 compares September 30, 2006, and September 30, 2007 net costs.

With a net cost of $9.7 billion, the *Air Traffic Organization* is FAA's largest line of business, comprising 65% of total net costs. Air Traffic Organization's net costs increased by $383.0 million in FY 2007 primarily from costs related to FAA's Telecommunication Infrastructure (FTI) project that provides efficient transmission of voice, data, radar, weather, and other information critical to the operations of FAA at a significant cost savings over time.

With a net cost of $3.9 billion as of September 30, 2007, which is 27% of FAA's total net costs, *Airports* is FAA's second largest line of business. Net costs increased $71.7 million from the prior year and are composed mostly of Aviation Insurance Program grant disbursements.

The net cost of Aviation Safety represents 7% of FAA's total net costs, while *Region and Center Operations and All Other* comprise 1% of total net costs. The net costs of Region and Center Operations were $159.3 million greater than FY 2006, as of September 30, 2007. Gross costs remained relatively constant while intragovernmental revenues decreased by $179.4 million. The net cost of *Aviation Safety* increased by $69.5 million.

Statement of Changes in Net Position

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

FAA's cumulative results of operations for the period ending September 30, 2007, increased $29.3 million, on a comparative basis, due primarily to a combination of increases in beginning balances of $379.7 million and financing sources of $328.6 million offset by an increase in net cost of $679.0 million. Unexpended appropriations increased $670.6 million primarily due to the FY 2007 adopted practice of reporting the use of trust fund dollars prior to general fund dollars. This practice is in compliance with the Office of Management and Budget's (OMB) Circular A-136, *Financial Reporting Requirements*.

Statement of Budgetary Resources

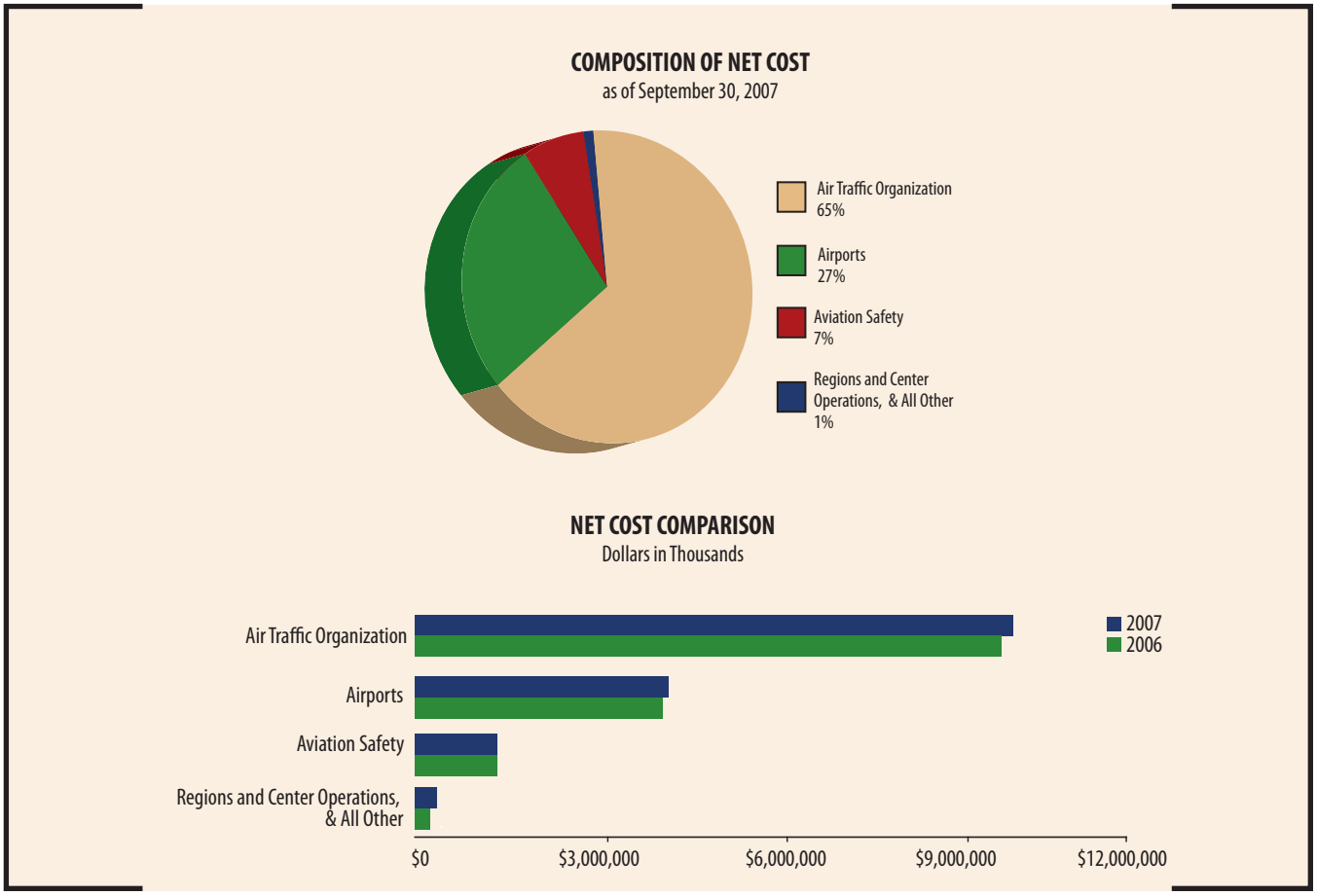
This statement provides information on the budgetary resources available to FAA as of September 30, 2007, and September 30, 2006, and the status of those budgetary resources.

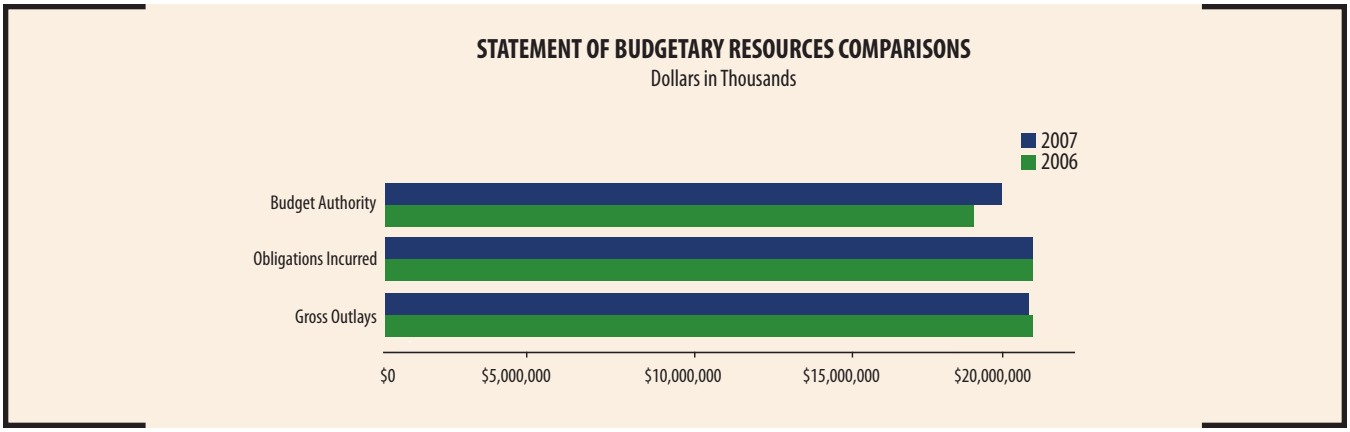
Beginning in FY 2007, FAA no longer eliminates the transfers between the AATF and FAA general fund components, per OMB Circular A-136. For comparative purposes, this treatment has also been applied to the FY 2006 balances on this chart only. The chart on page 50 shows the changes in the major categories of budgetary resources for the comparative periods.

Budget authority is the authority provided to FAA by law to enter into obligations that will result in outlays of Federal funds. *Obligations incurred* result from an order placed, contract awarded, service received, or similar transaction that will require payments during the same or a future period. *Gross outlays* reflect the actual cash disbursed by Treasury for FAA obligations. FAA reported total budget authority of $19.7 billion on September 30, 2007, compared to $18.5 billion on September 30, 2006. *Obligations incurred* remained constant at $21.0 billion. *Gross outlays* decreased slightly from $20.9 billion to $20.8 billion.

Stewardship Investments

Stewardship investments are substantial investments made by the FAA for the benefit of the





nation, but do not result in physical ownership of assets by the FAA. When incurred, these amounts are treated as expenses in the Consolidated Statements of Net Cost. Our Required Supplementary Stewardship Information (RSSI) includes disclosure of stewardship investments over the past 5 years. These are disclosures of Airport Improvement Program grants by state/territory, and research and development investments.

The distribution of total grants expense by state/territory has been relatively stable over the past 5 years. However, expenses recognized in FY 2005 and FY 2006 increased largely as a result of a significant increase in grant funding levels in FY 2001. Because these AIP projects are typically long-term, and FAA recognizes the grants expense as the recipient accomplishes the improvement work, the substantial expansion of this program in FY 2001 is resulting in increased expenses in more recent years.

Beginning in FY 2005, FAA's research and development expenses increased as a result of, for example, the software development of the Terminal Convective Weather Forecast, funding for human factor research to improve simulation sessions for pilots, and development of pre-hire software to aid in the replacement of 12,500 retiring air traffic controllers over the next 10 years. Research and development expenses have followed a predictable trend of gradual increases over the last 5 years, with the exception of FY 2003, when reduced funding levels resulted in lower applied research expenses.

Limitations of the Financial Statements

FAA has prepared its financial statements to report its financial position and results of operations, pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994.

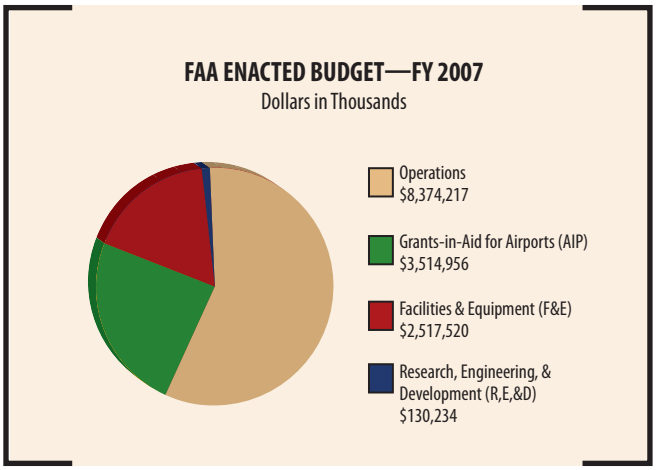
While the FAA statements have been prepared from its books and records in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

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

Budgetary Integrity: FAA Resources and How They Are Used

The AATF provided approximately 81.3% of FAA's FY 2007 budget. Created by the Airport and Airway Revenue Act of 1970, the AATF derives its monies from excise taxes and earned interest. It provides a stable source of revenue to finance investments in the airport and airway system. To the extent funds are available, the fund also covers the operating costs of the airway system. Aviation excise taxes, which include taxes on domestic passenger tickets, freight waybills, general and commercial aviation

fuel, and international departures and arrivals, are deposited into the fund. The Department of the Treasury maintains the fund and invests its monies in Government securities, and interest earned is also deposited into the fund. Monies are withdrawn as needed and transferred into each FAA appropriation to cover obligations.



FAA is financed through annual and multiyear appropriations authorized by Congress. The FY 2007 enacted budget of $14.537 billion was slightly less than 2% higher than the FY 2006 enacted level. The Combined Statement of Budgetary Resources reflects funding enacted by the FY 2007 Continuing Resolution H.J. Res. 20.

FAA has four appropriations. The largest, Operations, is funded by both the Treasury's General Fund and the AATF. In FY 2007, the AATF provided nearly 67% of the revenue for Operations. The AATF is the sole revenue source for FAA's three capital investment appropriations:

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

Operations. The Operations appropriation finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It funds the salaries and costs associated with carrying out FAA's safety inspection and regulatory responsibilities as well. The account also covers administrative and managerial costs for FAA's international, medical, engineering, and development programs and for policy oversight and overall management functions. The FY 2007 Operations appropriation was $8.4 billion, approximately 3% over FY 2006, and primarily attributable to payroll and inflation costs.

AIP. The Secretary of Transportation is authorized to award grants for planning and development to maintain a safe and efficient nationwide system of public airports. These grants fund approximately one-third of all capital development at the nation's public airports. Grants are issued to maintain and enhance airport safety, preserve existing infrastructure, and expand capacity and efficiency throughout the system. The program also supports noise compatibility and planning, the military airport program, reliever airports, and airport program administration. FY 2007 funding for AIP was just over $3.5 billion—the same as the FY 2006 level. Similarly, funding for the Small Community Air Service program has remained near the FY 2006 level of $10 million.

F&E. The programs funded by the F&E appropriation are FAA's principal means of modernizing and improving air traffic control and airway facilities. The account also finances major capital investments required by other agency programs as well as other improvements to enhance the safety and capacity of the national airspace system. F&E was funded at $2.5 billion in FY 2007, approximately the same level as in FY 2006. Major systems included Automatic Dependent Surveillance-Broadcast, System Wide Information Management, En Route Automation, Terminal Automation, Oceanic Automation, the Wide-Area Augmentation System (WAAS), ASDE-X, Airport Surveillance Radar, FTI, and Terminal Air Traffic Control Facilities replacement.

R,E,&D. The FY 2007 appropriation for R,E,&D was slightly in excess of $130 million—almost 5% less than FY 2006. R,E,&D funds were applied to research programs to improve the safety and effectiveness of the air traffic control system. In FY 2007, programs focused on the environment and energy, weather initiatives, JPDO activities, human factors, and aircraft safety.

More than 14,000 Federal air traffic controllers in airport towers, terminal radar control facilities, and air route traffic control centers guide pilots through the national airspace system.
Credit: FAA Image Library

SAFETY

GOAL: Achieve the lowest possible accident rate and constantly improve safety.

This remains one of the safest periods in aviation history for both commercial and general aviation. Over the past 5 years, nearly 3 billion airline passengers reached their destination safely. As the stewards of aviation safety in the United States, FAA and its industry partners have built a system that operates nearly 32,000 scheduled commercial flights daily and has reduced the risks of flying to all-time lows.

FAA's efforts during the past 10 years have resulted in reduced general aviation fatal accidents and fewer Alaska fatal accidents. Looking at general aviation fatal accidents over the past 10 years, we see a downward trend toward fewer fatal accidents. However, since these accidents tend to fluctuate from year to year, the downward trend is not smooth.

FY 2007 **SAFETY** PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2007 Target	FY 2007 Results	FY 2007 Status	FY 2008 Target[1]
Commercial Air Carrier Fatal Accident Rate Limit the 3-year rolling average fatal accident rate to 0.010 fatal accidents per 100,000 departures.	0.010	0.022[2]	▲	<0.010
General Aviation Fatal Accidents By FY 2009, reduce the number of general aviation and nonscheduled Part 135 fatal accidents from the 1996–1998 average of 385 per year to no more than 319 accidents per year. This measure will be converted from a number to a rate after FY 2009. The targets for FY 2010–2011 are under development.	331	314[2]	●	325
Alaska Accidents[3] By FY 2009, reduce accidents in Alaska for general aviation and all Part 135 operations from the 2000–2002 average of 130 accidents per year to no more than 99 accidents per year. This measure will be converted from a number to a rate after FY 2009. The targets for FY 2010–2011 are under development.	110	92[2]	●	104
Runway Incursions By FY 2010, limit Category A and B (most serious) runway incursions to a rate of no more than 0.450 per million operations, and maintain or improve through FY 2011.	0.530	0.393[4]	●	0.509
Commercial Space Launch Accidents No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	0	0	●	0
Operational Errors Limit Category A and B (most serious) operational errors to a rate of no more than 4.27 per million activities through FY 2008.	4.27	4.08[4]	●	4.27
Safety Risk Management By FY 2010, apply Safety Risk Management to at least 19 significant changes in the NAS.	3	3	●	6

[1] FY 2008 targets are from FY 2007–2011 *Flight Plan*.
[2] Preliminary estimate until March 2009.
[3] This measure includes both fatal and non-fatal accidents.
[4] Preliminary estimate until January 2008.
For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.
● Goal Achieved
▲ Goal Not Achieved

COMMERCIAL AIR CARRIER FATAL ACCIDENT RATE

COMMERCIAL AIR CARRIER FATAL ACCIDENT RATE: FY 2007 TARGET AND RESULT		
TARGET		Limit the 3-year rolling average fatal accident rate to 0.01 fatal accidents per 100,000 departures. *Note: This measure will be replaced in FY 2008 with the Commercial Air Carrier Fatality Rate per 100 Million Persons on Board.*
RESULT	▲	0.022 *(preliminary estimate)* We did not meet the FY 2007 target to reduce the commercial air carrier fatal accident rate.

We did not meet our FY 2007 Commercial Air Carrier Fatal Accident Rate target of 0.010. By the end of FY 2007, we achieved a rate of 0.022 fatal accidents per 100,000 departures—a 57% drop in fatal accidents from 1997. In December 2006, a scheduled Part 135 (commuter and on-demand operations) fatal accident occurred in Alaska. It involved a Peninsula Piper PA-32-301 carrying one passenger. Both the passenger and the pilot were killed. In July 2007, another fatal accident involved a Sky King aircraft in Mississippi on the ramp.

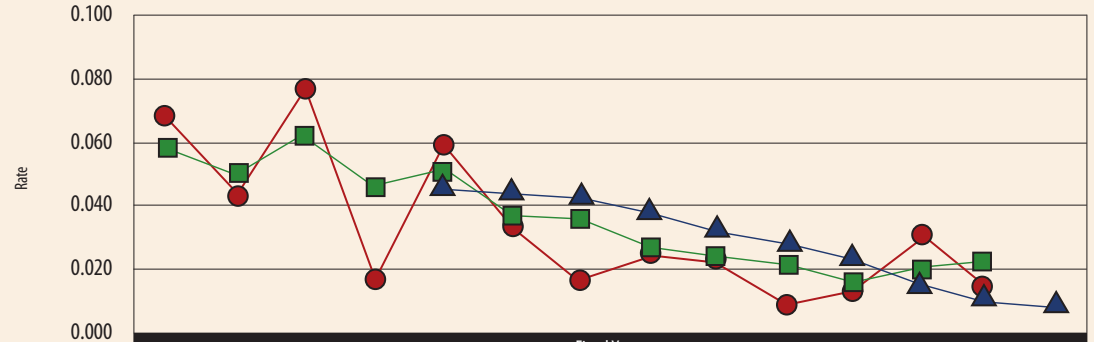
In 1997, the White House Commission on Aviation Safety and Security issued a challenge to FAA and the aviation industry to reduce the air carrier fatal accident rate by 80% in 10 years. In response, FAA initiated a joint Government-industry analysis of causal factors most frequently involved in aviation accidents. The resulting document, *Safer Skies—A Focused Agenda,* formed the basis for joint Government-industry efforts to reduce the number of accidents in both the commercial and general aviation areas.

This year marks the end of that 10-year period. Although we did not achieve the target set 10 years ago, FAA's safety accomplishments are significant with a 57% reduction in commercial air carrier fatal accidents in 10 years. Through the continuing effort and cooperation of all participants in the aviation industry and FAA, we have achieved the safest period in aviation history. The Commercial Aviation Safety Team (CAST) has focused attention on finding root causes of accidents and solving them. Rules and regulations have also led to safer equipment and procedures.

While FAA continues to aggressively pursue increased aviation safety, our ability to take corrective action to achieve our target both this year and next is severely limited. Even if, for the first time, no commercial air carrier fatal accidents occurred during the next two fiscal years, we would not achieve the target. This is because the current

COMMERCIAL AIR CARRIER FATAL ACCIDENT RATE

Per 100,000 Departures



	Fiscal Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Fatal Accident Rate		0.068	0.043	0.077	0.017	0.059	0.033	0.017	0.028	0.027	0.009	0.017	0.034[1]	.016[2]	N/A
3-Year Average		0.058	0.051	0.063	0.046	0.051	0.037	0.037	0.026	0.024	0.021	0.017	0.020[1]	.022[2]	N/A
Target		N/A	N/A	N/A	N/A	0.046	0.045	0.043	0.038	0.033	0.028	0.023	0.018	0.010	<0.010

[1] Preliminary estimate until March 2008.
[2] Preliminary estimate until March 2009.

fatal accident measure is expressed in terms of fatal accidents per 100,000 departures. With this measure all fatal accidents, as defined by the National Transportation Safety Board (NTSB) criteria, are weighted equally. The result is that an accident with a single fatality is viewed in the same way as an accident involving hundreds of passengers.

For this reason, FAA is introducing a new performance metric for commercial air carrier safety—Fatalities per 100 Million Persons on Board. This new metric is more relevant to the flying public, as it better measures the individual risk, as low as it is, to fly. All fatalities, including passengers, crewmembers, ramp workers, and ground fatalities, will be considered equally. The proposed long-term target is no less challenging than the previous goal—the agency aims to cut this risk in half by 2025. To make this vision a reality, FAA will continue to work in partnership with industry.

Further, FAA maintains its regulatory and enforcement role and continues to partner with the aviation community in improving safety. This is reflected in three basic long-term strategies: (1) prevent accidents by addressing recurrent causes; (2) improve certification and surveillance; and (3) share safety data and information with aviation partners. These strategies are at the heart of most of FAA's significant and long-term safety programs.

In addition, the transition of commercial air carriers to the Air Transportation Oversight System (ATOS) has helped focus safety oversight. We initiated this new and innovative program as a way of inspecting the nation's airlines to identify safety trends in order to spot and correct problems at their root cause—before an accident occurs.

ATOS began with the nation's 10 largest airlines, which handle 95% of U.S. passengers, and will ultimately include all U.S. airlines. FAA inspectors now look at an airline as a whole to determine how the many elements of its operation—including aircraft, pilots, maintenance facilities, flight dispatch, and cabin safety—interact to meet Federal standards.

Required navigation performance (RNP) procedures have allowed for the accurate, repeatable procedures that are flown in the same manner by all aircraft. Controllers can then expect aircraft to be at a specific position with a high degree of confidence, thus maximizing safety and the efficient flow of aircraft through airspace. RNP procedures are being used in seven locations—Hailey, ID; Oklahoma City, OK; Jackson Hole, WY; Atlanta, GA; Dallas/Fort Worth, TX; and Honolulu and Lihue, HI.

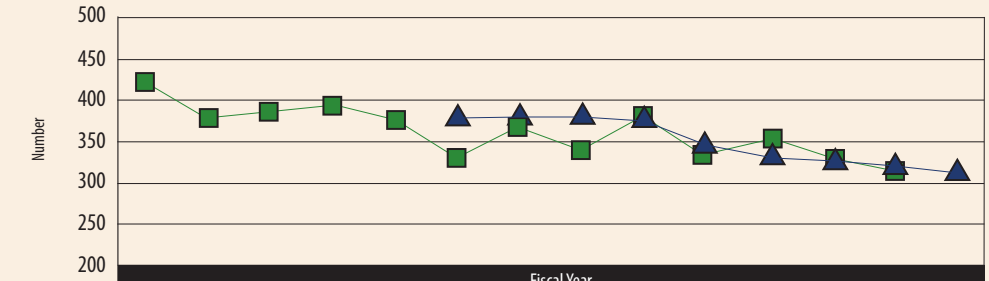
GENERAL AVIATION FATAL ACCIDENTS

GENERAL AVIATION FATAL ACCIDENTS: FY 2007 TARGET AND RESULT		
TARGET	Reduce the number of general aviation and nonscheduled Part 135 fatal accidents to 331. *This measure will be converted from a number to a rate for FY 2009.*	
RESULT	●	314 *(preliminary estimate)* FAA met the FY 2007 target of no more 331 General Aviation Fatal Accidents.

Although most people are familiar with FAA's role in commercial aviation, they may not be aware that it also oversees the safety of almost 300,000 general aviation aircraft in the United States. In FY 2007, we met our target of reducing fatal accidents to no more than 331, ending the year with a total of 314 accidents. Fatal accidents in general aviation trended significantly lower each month compared to the previous year. Rotorcraft, including Emergency Medical Service flights, showed a sharp decline over the previous year. It is also important to note that since the agency began tracking this performance target 6 years ago, the ceiling has been exceeded only once.

In FY 2009, FAA will introduce a new general aviation fatal accident rate, similar to the one currently used to measure the fatal accident rate for Commercial Air Carriers. To set the target for the new rate, in FY 2007 the agency completed the annual survey of general aviation aircraft owners. Using the results of this and previous surveys, the agency has developed statistically accurate rates based on actual activity throughout the United States.

NUMBER OF GENERAL AVIATION FATAL ACCIDENTS



Fiscal Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Actual	436	384	378	390	364	343	359	348	366	340	354	299[1]	314[2]	N/A
Target	N/A	N/A	N/A	N/A	N/A	379	379	379	374	349	343	337	331	325

[1] Preliminary estimate until March 2008.
[2] Preliminary estimate until March 2009.

General aviation aircraft include single-seat, home-built airplanes; rotorcraft; balloons; and highly sophisticated extended-range turbojets. General aviation activities include student training, crop dusting, fire fighting, law enforcement, news coverage, sightseeing, industrial work, on-demand air taxi service, corporate transportation, as well as personal use and recreational flying.

FAA worked with various members of the general aviation community during FY 2007, including aeromedical evacuation, charter services, and others to promote education and training on instrument check guidance and effective pilot/instructor mentoring programs.

ALASKA ACCIDENTS

ALASKA ACCIDENTS: FY 2007 TARGET AND RESULT		
TARGET		Reduce accidents in Alaska for general aviation and all Part 135 operations to no more than 110 per year.
RESULT	●	92 *(preliminary estimate)* FAA met the FY 2007 target for reducing Alaska Accidents.

Aviation plays a vital role in Alaska, but the state's topography and weather present unique safety challenges to pilots. In recent years, FAA has focused on reducing aviation risks in Alaska, particularly those associated with general aviation.

Our target is to reduce fatal and nonfatal accidents in Alaska from the 2000–2002 average of 130 accidents per year to no more than 99 accidents per year by FY 2009. There were 92 accidents in Alaska in FY 2007, below the target of 110. Alaska experienced a total of 10 fatal accidents this year, 4 in nonscheduled Part 135 (commuter and on-demand operations) and 6 in general aviation.

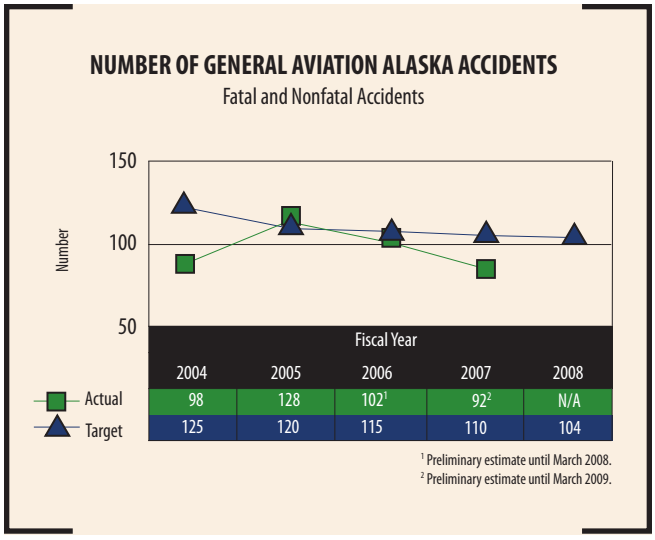
Alaska's skyways are equivalent to the highway and road infrastructure found throughout the continental United States, making the use of general aviation aircraft essential to everyday life. Aircraft are used to travel to medical appointments, for children to attend school, and to supply communities with groceries, fuel, and mail. There is an urgent need to modernize flight service and reduce accidents in Alaska, an issue that FAA's *Flight Plan* focuses on specifically.

Flight service facilities in Alaska provide fundamental flight safety and operational support to Alaskan aviators. The Alaska Flight Service Modernization (AFSM) program is currently working to ensure Alaska's unique aviation needs are on par or superior to the level of service available in the continental United States, Hawaii, and Puerto Rico. The goal of AFSM is to reduce operating costs by at least 25% over projected costs associated with current infrastructure. Our efforts include expanded and enhanced flight services throughout Alaska through innovative use of

remote airport advisory cameras, and the delivery of information via an Internet website hosted on kiosks located at rural airports.

Continued emphasis on training through the Medallion and Circle of Safety programs, as well as the introduction of new technology, has significantly improved the general aviation operating environment. Pilots in Alaska can conduct RNP approaches using sophisticated on-board equipment at runways that are normally not accessible in low visibility and bad weather conditions.

The Alaska Capstone Program evaluates technologies and procedures designed to enhance general aviation safety that may well be part of aviation's future, such as ADS-B. The primary benefit of ADS-B in Alaska is the delivery of general aviation air traffic control service at lower altitudes in areas where radar is not currently available or would be too costly to deploy. ADS-B provides pilots with a situational awareness tool that displays real time information on aircraft; on snow removal equipment and airport vehicles operating on runways, taxiways, and ramps; and on aircraft operating in the vicinity of traffic patterns at selected airports. ADS-B technology can also be used to improve accuracy and timeliness of search and rescue activity when pilots encounter problems or experience an accident in remote parts of Alaska.



RUNWAY INCURSIONS

RUNWAY INCURSIONS: FY 2007 TARGET AND RESULT		
TARGET		Reduce Category A and B (most serious) runway incursions to a rate of no more than 0.530 per million operations.
RESULT	●	0.393 *(preliminary estimate)* We met our goal of reducing the number of Category A and B (most serious) runway incursions.

The agency has been aggressively addressing this issue and has made progress in reducing the most serious incidents, particularly those involving commercial aircraft. In FY 2007, FAA met the performance target of 0.530 per million operations for Category A and B runway incursions at towered airports. We ended the fiscal year with a rate of 0.393 (preliminary) per million operations. By 2010, the ATO's goal is to limit Category A and B (the most serious) runway incursions to a rate of no more than 0.450 per million operations. Further, the number of serious runway incursions has been reduced by more than 50% within the past 6 years.

Reducing the risk of runway incursions is one of FAA's top priorities. A runway incursion is any occurrence at an airport involving an aircraft, vehicle, person, or object on the ground that creates a collision hazard or results in a loss of separation with an aircraft taking off, intending to take off, landing, or intending to land. Reducing RIs lessens the probability of accidents that potentially involve fatalities, injuries, and significant property damage.

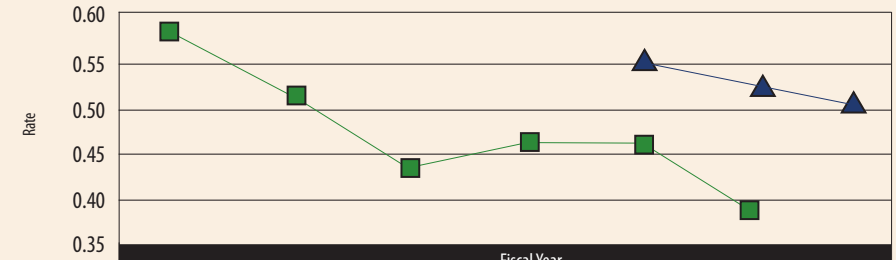
However, while we are meeting our targets for reducing the most serious runway incursions, we have seen some recent incidents that are of concern. To address this issue we met in August 2007 with aviation leaders to brainstorm remedies for reducing runway incursions. The high-level group focused on improved procedures, increased training for airline personnel, and more rapid deployment of technology that could reduce runway incursions.

Among the plans resulting from the meeting is a series of airport safety reviews that will be conducted at 20 airports with the highest rate of incursion, as well as at airports where

RUNWAY INCURSION RATE

Per Million Operations

Highest Severity—Category A & B



Fiscal Year	2002	2003	2004	2005	2006	2007	2008
Actual	0.570	0.510	0.444	0.460	0.507[1]	.393[2]	N/A
Target	N/A	N/A	N/A	N/A	0.551	0.530	0.509

[1]Revised fom preliminary estimate of .458.
[2]Preliminary estimate until January 2008.

wrong-runway departures have been identified as a concern. In addition, in the area of runway markings, the nation's 75 busiest airports have been asked to accelerate the deployment of new mandated runway markings. Carriers are also being asked to review their checklist flow procedures—to reduce the number of actions that need to be taken while the aircraft is in motion—to minimize pilot distractions. We are also asking controllers to provide more precise taxiing instructions.

Another action item involves adding taxiing procedures to simulator training. Under the current model for training pilots in simulators, the simulator is either already airborne or it is positioned at the end of the runway. Scenarios will now be added to include departure from the gate and following instructions for a particular taxi route to the departure runway. Rounding out the action items is the creation of a voluntary, nonpunitive system for air traffic controllers and ATO safety workers to report safety concerns.

Further, in FY 2007, we continued the Runway Status Lights (RWSL) program, which reduces the likelihood of runway incidents. RWSL act as stoplights on runways and taxiways, assigning priority to aircraft with the right of way. They are located along the centerline of a runway or taxiway and light up red when a runway is in use, notifying the pilot of a taxiing aircraft to either stop prior to crossing the runway or yield to the aircraft landing or taking off.

ASDE-X was installed at Louisville International Airport and Charlotte Douglas Airport. ASDE-X enables air traffic controllers to detect potential runway conflicts by providing detailed coverage of movement on runways and taxiways. By collecting data from a variety of sources, ASDE-X is able to track vehicles and aircraft on the airport movement area and obtain identification information from aircraft transponders. Controllers in the tower see this information presented as a color display of aircraft and vehicle positions overlaid on a map of the airport's runways/taxiways and approach corridors. The system essentially creates a continuously updated map of the airport movement area that controllers can use to spot potential collisions. It is especially helpful to controllers at night or in bad weather when visibility is poor.

In addition, in March 2007, we announced that electronic flight bags (EFBs) with airport moving map displays that show the aircraft's precise location on the airfield will be allowed in the cockpit. These laptop-sized displays are a game-changer in FAA's efforts to reduce runway incursions and improve runway safety.

EFBs have replaced the old-style leather briefcases that were stuffed with paper charts, schedules, and weather maps. EFBs with moving maps use GPS to display an aircraft's "own ship position" with a high degree of accuracy.

FAA certification staff, satisfied that this device met all appropriate safety standards, streamlined the existing certification process to make this technology available now. Given the now reduced cost of certification, EFBs with moving maps should be well within the reach of airlines to retrofit their current fleet and put this safety tool to work on our runways.

COMMERCIAL SPACE LAUNCH ACCIDENTS

COMMERCIAL SPACE LAUNCH ACCIDENTS: FY 2007 TARGET AND RESULT		
TARGET		No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.
RESULT		0 We achieved this goal for the fourth year in a row.

The U.S. commercial space launch industry has conducted over 190 launches since 1989, of which 183 were FAA licensed launches. In FY 2007, a total of 14 U.S. launches occurred. Of these, 10 involved experimental test flights of suborbital reusable launch vehicles. None of these launches resulted in a public casualty or injury.

These achievements demonstrate a strong commitment to safety by the U.S. space launch industry and FAA. The licensing process is a major reason for FAA's sterling commercial space transportation safety record. The agency currently has 16 active licenses: 11 for expendable launch vehicles and 5 for launch site operators, which include 2 for inland launch sites. FY 2007 was the first year that the FAA issued experimental permits authorizing industry to conduct test flights of suborbital reusable launch vehicles.

Safety inspections also contribute significantly to our ability to verify that licensees and permitees remain in regulatory compliance and continue to operate safely. We perform safety inspections of operators that include activities at launch and reentry sites, and even at manufacturing facilities where activities occur that could affect the safety of a launch or reentry operation. Further, we partner with other Government agencies such as NASA and the Departments of State and Defense to ensure that licensed operations operate in accordance with U.S. national security and foreign policy interests.

OPERATIONAL ERRORS

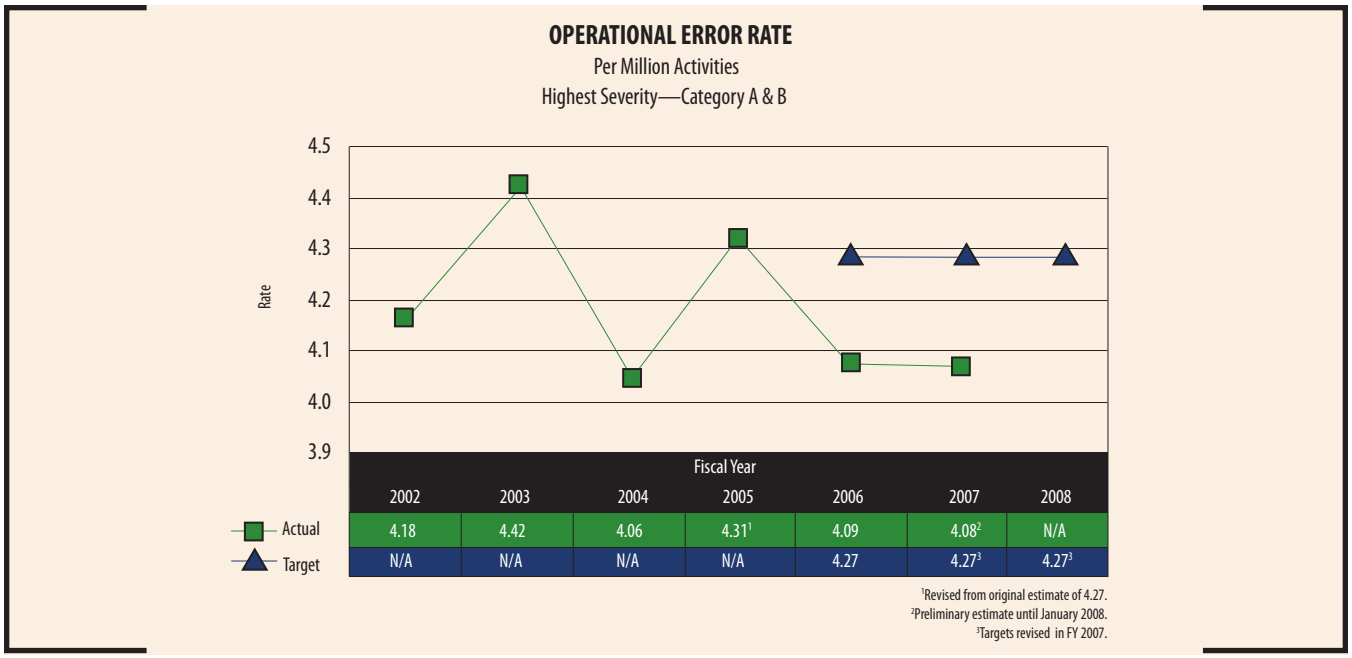
OPERATIONAL ERRORS: FY 2007 TARGET AND RESULT		
TARGET		Reduce the rate of Category A and B (most serious) operational errors to a rate of no more than 4.27 per million activities. *Note: This target was revised from 4.20 per million activities.*
RESULT		4.08 There were 4.08 operational errors (preliminary estimate) per million activities.

One of the fundamental principles of aviation safety is separation—maintaining a safe distance from other aircraft, terrain, obstructions, and restricted airspace. Air traffic controllers employ rules and procedures that define separation standards for this environment. An operational error (OE) occurs when controllers fail to apply or follow the procedures that enforce separation and allow aircraft to end up too close to each other or to an obstruction.

The performance target for FY 2007 was set not to exceed a rate of 4.27 operational errors per million activities. The FY 2007 preliminary estimates indicate 4.08 operational errors per million activities, tracking slightly below the year-to-date projected performance target.

FAA has historically tried to understand and mitigate the incidence of OEs, focusing on the critical component of the system—the closest person to the air traffic situation and the last point of prevention—the air traffic controller. We focus attention on implementing a coordinated system of investigations to identify causal factors, fielding automation to re-create events, developing metrics to categorize OE severity, and sponsoring unique performance enhancement programs.

Specifically, during FY 2007, FAA worked to improve how the severity of OEs is calculated. We began implementation of a new system to classify



OEs and instituted a 10% performance tolerance on separation minima to better understand and measure our safety performance. These changes allow us to take full advantage of advances in technology that now allow for separation measurements to a hundredth of a mile (60 feet) and enable us to capture more events that approach the edges of the separation standards.

The new measurement process, referred to as the Separation Conformance (SC), measures the severity of the outcome of the OE as a result of the percent of required separation that was maintained. When the SC is measured in combination with the number of operations, it creates a reliable rate-based measure of safety.

Further, the new measurement system minimizes the number of criteria used to determine OE severity, minimizes subjectivity, and allows for better analysis of same category events—all of which enhance safety conclusions. With these changes we now measure the proximity between two aircraft that best characterizes the actual risk of collision.

As air traffic continues to increase, reducing the risk of OEs continues to be one of our top priorities. Since pilots, air traffic controllers, and vehicle drivers share responsibility for reducing OEs, we continue to focus on outreach, awareness, technology, and improved procedures and infrastructure. For example, we

- Focus on communication problems between pilots and controllers caused by phraseology (the process of mutual verification of information passed between them).
- Developed and implemented the Facility Safety Assessment System (FSAS), a web-based data collection and distribution system that analyzes information about OEs and RIs that allows us to identify precursors to serious accidents. FSAS allows facilities to streamline the reporting process and share mitigation plans across the NAS.
- Continue to develop safety promotion clips to enhance air traffic supervisor and controller discussion of serious events during team briefings. Safety clips are developed using actual air traffic control incidents and media tools such as video re-creations, replays of radar/voice references, and narration of safety enhancement messages. Subject matter is derived from areas such as daily reviews of OEs and operational deviations, collisions, facility evaluations, and customer feedback.

SAFETY RISK MANAGEMENT

SAFETY RISK MANAGEMENT: FY 2007 TARGET AND RESULT		
TARGET	Apply safety risk management to at least three significant changes in the NAS.	
RESULT		3 We accomplished this target by applying SRM analysis and assessment to three significant changes to the NAS.

In FY 2007, we achieved our performance target and applied Safety Risk Management (SRM) to three significant changes in the NAS. To enhance the safety of FAA's air traffic system, FAA is developing and implementing a Safety Management System (SMS) that complies with the International Civil Aviation Organization's (ICAO) requirements. The SMS Order that formally establishes standardized system safety policy and requirements for ATO was approved in March 2007. The Order will provide policy for the SMS implementation across the ATO. SRM is a fundamental component of the successful implementation of the SMS and supports safety through the enhancement of FAA's air traffic systems. We use SRM to verify that all significant changes to the NAS are assessed for safety risks and that identified risks have been mitigated and/or lowered to an acceptable level prior to inclusion in the NAS.

To support the full implementation of SRM, FAA requires training for project managers in SRM analysis. In addition, practicums have been developed outlining the step-by-step process for working with the service units to complete the SRM projects.

In FY 2007, we conducted an SRM assessment and prepared documents for "Enhanced Backup Surveillance." This change ensures that we have backup surveillance capability in case the primary system fails. We also completed a safety risk analysis for the location of a new tower at the Lone Star Executive airport. Through this analysis, a high risk hazard was identified and successfully mitigated to an acceptable level. In addition, we performed a risk analysis and prepared SRM documentation for "Operational Use of ADS-B to Radar Separation Procedures," which ensures appropriate separation between aircraft.

CAPACITY

GOAL: Work with local governments and airspace users to provide increased capacity in the U.S. airspace system that reduces congestion and meets projected demand in an environmentally sound manner.

The air transportation system is stretched thin. Currently, the system handles 763 million passengers each year. We expect this number to reach one billion by 2015, and forecasts indicate increases in demand ranging from a factor of two to three by 2025.

In FY 2007, the demands on our NAS were never greater and the challenge to increase capacity intensified. The overall growth in numbers of aircraft, the diversity in the performance and type of aircraft operating (e.g., regional jets), and the increasing growth of low-cost carriers further exacerbated an already tenuous NAS. Along with these factors, adverse weather conditions were a major contributing factor to the increase in airport delays this year.

The Federal Government's commitment to being ready for the future is gathered under one vision—NextGen. The concept of NextGen is a wide ranging transformation of the entire NAS to meet future demands and avoid gridlock in the sky and at our airports. NextGen's goals focus on significantly increasing the safety, security, and capacity of air transportation operations while reducing environmental impacts, thereby improving the overall economic well-being of the country.

The objective is simple and direct: get people and goods where they need to go as quickly and efficiently as possible. FAA works to reduce delays and eliminate congestion every day, starting literally from the ground up. We are building new runways, installing new technology, and putting new procedures in place to facilitate capacity, efficiency, and environmental enhancements. To combat aviation congestion, our strategy calls for major technology upgrades and capacity improvement projects at major airports, all while managing congestion at key hot spots.

FY 2007 **CAPACITY** PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2007 Target	FY 2007 Results	FY 2007 Status	FY 2008 Target[1]
Average Daily Airport Capacity (35 Operational Evolution Plan [OEP] airports) Achieve an average daily airport capacity for the 35 OEP airports of 104,338 arrivals and departures per day by FY 2011.	101,562	102,539[2]	●	101,868
Average Daily Airport Capacity (7 metropolitan areas) Achieve an average daily airport capacity for the seven major metropolitan areas of 64,060 arrivals and departures per day by FY 2009, and maintain through FY 2011.	63,080	62,351[2]	▲	63,386
Annual Service Volume Commission six new runway projects, increasing the annual service volume of the 35 OEP airports by at least 1% annually, measured as a 5-year moving average, through FY 2011.	1.00% 2 projects	1.57% 2 projects	●	1.00% 1 project
Adjusted Operational Availability (35 OEP airports) Sustain adjusted operational availability at 99.7% for the reportable facilities that support the 35 OEP airports through FY 2011.	99.70%	99.82%[2]	●	99.70%
NAS On-Time Arrivals Achieve a NAS on-time arrival rate of 88.76% at the 35 OEP airports by FY 2011.	87.67%	86.32%[2]	▲	88.00%
Noise Exposure Reduce the number of people exposed to significant noise by 4% each year through FY 2011, as measured by a 3-year moving average, from the 3-year average for calendar years 2000–2002.	–8.00%	–27.00%[3]	●	–12.00%
Aviation Fuel Efficiency Improve aviation fuel efficiency per revenue plane-mile by 1% each year through FY 2011, as measured by a 3-year moving average, from the 3-year average for calendar years 2000–2002.	–5.00%	–10.82%	●	–5.00%

[1] FY 2008 targets are from FY 2007–2011 *Flight Plan*.
[2] Preliminary estimate until January 2008.
[3] Projection from trends until May 2008.
For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.
● Goal Achieved
▲ Goal Not Achieved

AVERAGE DAILY AIRPORT CAPACITY (35 OEP AIRPORTS)

AVERAGE DAILY AIRPORT CAPACITY (35 OEP AIRPORTS): FY 2007 TARGET AND RESULT		
TARGET	Achieve an average daily airport capacity for the 35 Operational Evolution Partnership (OEP) airports of 101,562 arrivals and departures per day.	
RESULT	●	102,539 (*preliminary estimate*) FAA achieved an average daily capacity of 102,539 for the 35 OEP airports.

We met our FY 2007 target to achieve an average daily airport capacity for the 35 Operational Evolution Partnership (OEP) airports of 101,562 arrivals and departures, achieving an average daily capacity of 102,539 for the 35 OEP airports. Our FY 2008 target is 101,868 and, based on prior performance, we should be able to achieve this target.

Growth in air travel has generally been accomplished by increasing the number of flights. Measuring the growth of airport capacity indicates the limit at which increased service can be accommodated without affecting delay. FAA works with local governments and airspace users to provide increased capacity in the U.S. airspace system that reduces congestion, manages environmental impacts, and meets projected demand.

Activities and accomplishments toward achieving these goals include

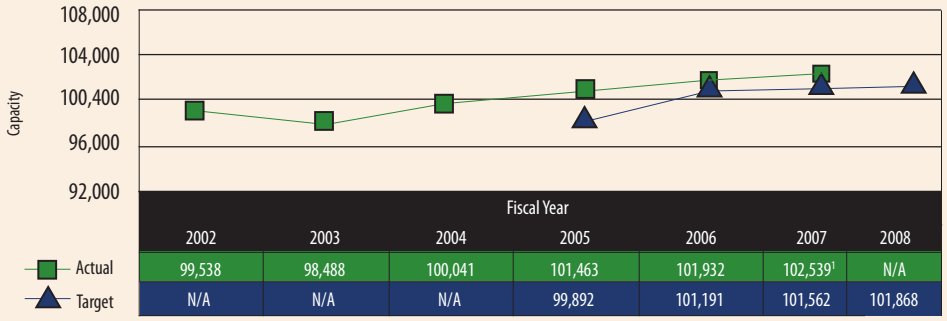
- ***Airspace Redesign.*** To help reduce delays, reduce fuel burn, and create more efficient routings, significant changes were made to crowded en route and terminal airspace. Redesign efforts continued in the New York/ New Jersey/Philadelphia, Chicago, and Houston airspace; all three of these projects are multi-phased efforts. The first phase of the Chicago airspace project was implemented in March 2007, and major interim milestones for the other two efforts were also completed in 2007. In addition, airspace reviews for Alaska and Southern Nevada began in 2007. These efforts promise to improve safety and efficiency, reduce delays and fuel consumption, and accommodate the changing fleet of aircraft and their usage patterns and capabilities.

- ***Area Navigation Routes, Standard Instrument Departures (SIDs), and Standard Terminal Arrival Routes (STARs).*** Area navigation (RNAV) consists of routes and procedures that allow aircraft to fly point-to-point operations that are not restricted by the location of ground-based navigation aids. This permits aircraft to fly optimum routes with little controller intervention.

  Two tools that increase capacity and improve efficiency are RNAV SIDs and STARs. RNAV SIDs and STARs provide instrument flight procedures for departing and arriving aircraft transitioning to and from the terminal to the en route structure, using advanced navigation

AVERAGE DAILY AIRPORT CAPACITY

Arrivals & Departures at the 35 OEP Airports



[1]Preliminary estimate until January 2008.

technology. Using RNAV reduces pilot and controller workload and enhances the efficient and safe use of navigable airspace within the terminal airspace environment. In the en route structure we are developing high and low altitude RNAV routes.

In FY 2007, we published 60 RNAV SIDs and STARs and 12 RNAV routes. RNAV is saving operators millions of dollars per year in fuel costs due to more efficient routes. We are beginning to realize capacity benefits as well. At Dallas/Fort Worth Airport, RNAV allows up to 20 additional departures per hour, and at Atlanta Hartsfield Airport, RNAV allows an additional 10 departures per hour.

- ***Integrated Terminal Weather System (ITWS).*** ITWS is technology that helps make air traffic flow more efficient in periods of adverse weather. As an air traffic management tool, ITWS provides air traffic managers, controllers, and airlines highly accurate, easily understood, and immediately useable graphical weather information and hazard alerts on a single, integrated color display. By providing traffic managers with this accurate, immediately useable weather information, ITWS helps increase safety and capacity, improve efficiency, and reduce weather delays for airlines and the traveling public. In FY 2007, ITWS was commissioned at New York City airports and at Memphis with a terminal convective weather forecast (TCWF) capability enhancement. TCWF increases weather forecast information from 20 to 60 minutes. Last year, all 22 existing ITWS sites were retrofitted with TCWF.

- ***New Runways.*** We opened a runway at Boston-Logan International Airport in November 2006 and relocated a runway at Los Angeles International Airport, which was closed for relocation the previous year. For more details on these runways, see the report on FAA's Annual Service Volume target on the next page.

- ***Research and Development.*** The new Airport Cooperative Research Program, in cooperation with the National Academy of Sciences and its Transportation Research Board, provided $10 million per year and, as a result, more than 60 airport research studies are underway.

- ***Future Airport Capacity Task (FACT) Report Update.*** FACT is an assessment of the future capacity of the nation's airports and metropolitan areas. This study shows that by 2025, 14 airports and 8 metropolitan areas will require additional capacity, even if currently planned improvements are built at airports throughout the system. The FACT 2 study recommends increased capacity gains from the use of supplemental airports.

  In addition, the study recommends capacity improvements be continued to include new runways and airports. Atlanta, Chicago, Las Vegas, and San Diego were specifically identified as cities needing additional capacity in the form of supplemental airports. The study also recommends innovative approaches to reduce congestion and improve capacity to include enhanced planning in metropolitan regions, congestion management at the busiest and most constrained airports, and the development and implementation of NextGen. Among the measures modeled in the terminal area were reduced separation standards for aircraft and closely spaced parallel runways.

AVERAGE DAILY AIRPORT CAPACITY (7 METROPOLITAN AREAS)

AVERAGE DAILY AIRPORT CAPACITY (7 METROPOLITAN AREAS): FY 2007 TARGET AND RESULT		
TARGET		Achieve an average daily airport capacity for the seven major metropolitan areas of 63,080 arrivals and departures per day. *Note: This target was redefined for FY 2007, so no trend data are available.*
RESULT	▲	62,351 (*preliminary estimate*) This target was not met.

Every year after thorough data analysis, FAA identifies the metropolitan areas that will most affect total system aviation delays. In FY 2007, we focused on New York, Philadelphia, South Central Florida, Chicago, Baltimore/Washington, Los Angeles Basin, and San Francisco Bay metropolitan areas.

We did not meet our FY 2007 target to achieve an average daily airport capacity for the seven major metropolitan areas of 63,080 arrivals and departures per day. The average daily airport capacity at the seven major metropolitan areas in FY 2007 was 62,351.

A review of our performance against the target indicated that we did not meet the desired results due to two factors: baseline setting and inclement weather. The FY 2007 baseline setting effort set the target using historical data that have proven to be somewhat inaccurate compared to the Airport Arrival Rates (AAR) and Airport Departure Rates (ADR) that are used by the facilities and entered into the Aviation System Performance Metrics database during this fiscal year.

In response, we implemented a quality assurance process to ensure the AAR and ADR data were entered on a daily basis and lower activity terminals validated their AAR and ADR. Further, we focused our attention on improved performance metrics for the airports. These efforts have improved accuracy in the rates being used and improved compliance with data entry. However, in monitoring the results, the data indicate lower than expected average daily capacity when compared to the FY 2007 target.

The other factor that affected capacity at several major airports in the Metro 7 group was inclement weather. For instance, during July 2007, low ceilings, low visibility, thunderstorms, wind, fog, and rain impacted operations at Atlanta Hartsfield, Boston Logan, Dallas/Fort Worth, Newark, Houston Intercontinental, New York's JFK and LaGuardia, Chicago O'Hare, and San Francisco Airports. There were also 94 ground delay programs run for the month of July 2007 with a total of 835,123 ground delay program minutes.

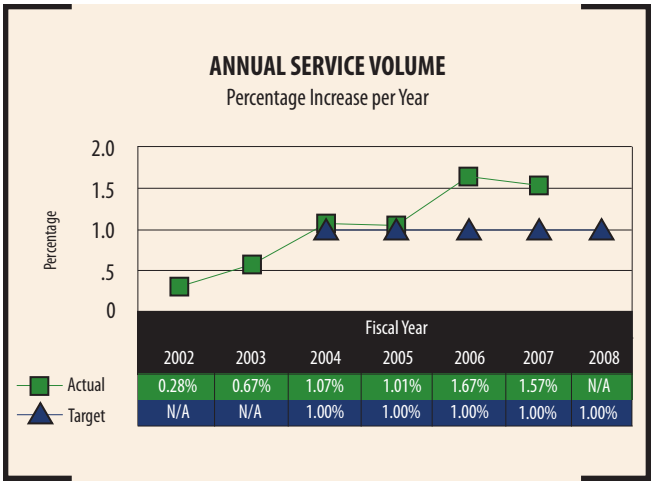
The average daily airport capacity for the seven metropolitan areas is being monitored closely so the target can be accurately recalculated for FY 2008.

ANNUAL SERVICE VOLUME

ANNUAL SERVICE VOLUME: FY 2007 TARGET AND RESULT		
TARGET		Commission two runways, increasing the Annual Service Volume (ASV) of the 35 OEP airports by at least 1%.
RESULT	●	1.57% 2 projects In FY 2007, a new runway at Boston-Logan and a replacement runway at Los Angeles International Airport opened.

The Annual Service Volume (ASV) measure is intended to estimate and track the increase in airport capacity at the 35 OEP airports. This measure is a 5-year moving average with 1998 as the base year. FAA calculates ASV using the Runway Delay Simulation Model, which simulates runway operations and provides both capacity and delay information. In FY 2007, we met our target to increase ASV of the 35 OEP airports by at least 1%.

ASV estimates the benefit, in terms of additional aircraft operations, from runway construction projects. A runway construction project includes new runways, runway extensions, and airfield reconfigurations. Aircraft operations include air carrier, commuter, air taxi, general aviation, and military aircraft.



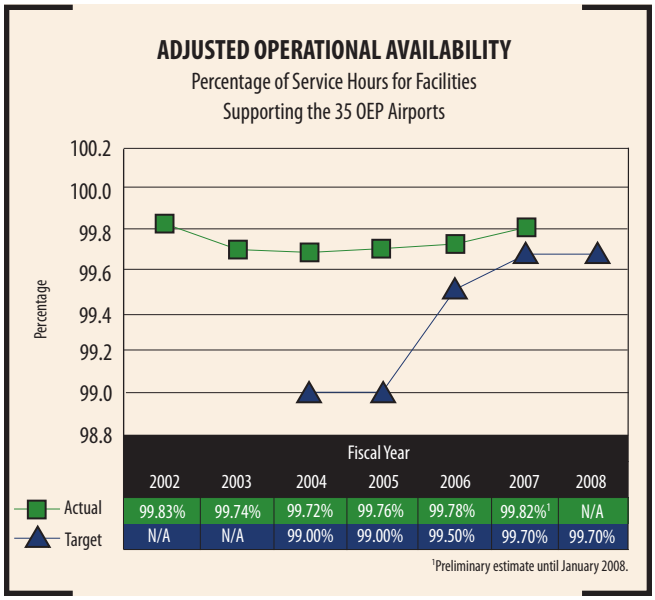
In November 2006, we opened Runway 14/32 at Boston-Logan International Airport, which has shown delay reduction benefits in its first several months of operation. Additionally, a runway at Los Angeles International Airport was closed for relocation last year. The replacement runway opened in April 2007. Also, with the opening of the end around taxiway at Atlanta in April 2007, about 612 runway crossings per day were eliminated at the busiest U.S. airport, significantly improving safety and efficiency.

The FY 2008 target is expected to be met with one airfield reconfiguration (a relocated runway and new centerfield taxiway) to be completed.

ADJUSTED OPERATIONAL AVAILABILITY

ADJUSTED OPERATIONAL AVAILABILITY: FY 2007 TARGET AND RESULT	
TARGET	Sustain adjusted operational availability at 99.70% for the reportable facilities that support the 35 OEP airports.
RESULT	99.82% We exceeded this goal.

We met our FY 2007 goal for sustaining adjusted operational availability at 99.70% for the reportable facilities that support the 35 OEP airports. The FY 2007 result was 99.82%. This performance measure shows the percent of time that air traffic control equipment was available versus the amount of time when the equipment was not functional.



The availability of the equipment necessary to provide service directly affects the performance of the NAS. Loss of radar or communications equipment will affect the speed and number of aircraft that can be handled where that loss occurs. The ability of the NAS to provide continuous guidance is crucial and affects both safety and capacity. This metric has the additional advantage of linking three capacity measures: *NAS on-time arrivals*, which are affected by the *airport capacity*, which is directly affected by the *operational availability* of the equipment and facilities supporting that capacity.

NAS ON-TIME ARRIVALS

NAS ON-TIME ARRIVALS: FY 2007 TARGET AND RESULT	
TARGET	Achieve a NAS On-Time Arrival rate of 87.67% at the 35 OEP airports. *Note: This target was revised from 87.40%.*
RESULT	86.32% (*preliminary estimate*) FAA fell short of the FY 2007 target achieving an NAS on-time arrival rate of only 86.32%.

Commercial aviation delays are estimated to cost airlines over $3 billion per year. Missed flight connections, missed meetings, and loss of personal time directly affect passengers and our national system capacity to meet air demands. Air traffic volume and adverse weather conditions are the major causes of aviation delays.

On-time performance is a measure of FAA's ability to deliver services. We did not meet our FY 2007 NAS On-Time Arrivals at the 35 OEP Airports target rate of 87.67%, achieving an on-time rate of only 86.32%. Adverse weather conditions played a significant part in airport delays, increasing weather-related delays from 2006 to 2007.

The inclement weather conditions include increases in wind, low ceilings, and low visibility. In July 2007, over 15% of operations at Boston, Newark, and Chicago were conducted during moderate to severe weather conditions. Weather delays for

July 2007 (19,996) increased 35.8% from July 2006 (14,721).

In response to weather conditions, unexpected demand, equipment outages, or other system constraints that impact an airport or portion of airspace, FAA traffic management specialists develop a plan to minimize delays and congestion and maximize system capacity. To accomplish this, they proactively plan with numerous aviation stakeholders and with traffic management specialists at affected air traffic control facilities. These specialists evaluate the projected flow of traffic and then implement the least restrictive corrective action necessary to ensure that demand does not exceed system capacity.

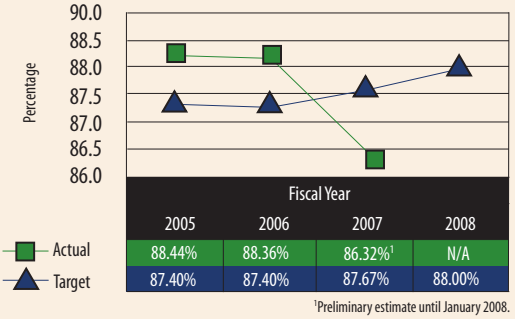
To help achieve this target in the future, FAA continues to evaluate new tools and technologies to improve arrival times such as ground delay programs and airspace flow programs used to combat the impact of thunderstorms on operations. In addition, FAA continues to evaluate separation standards, implementation of improved weather information tools, and airspace redesign where beneficial.

Airspace redesign is one of the key components in optimizing the U.S. airspace and allowing for increased capacity. Efficient airspace operations will require redesigning routes and changing the size and shape of the airspace. This increased flexibility will help address volume, congestion, and weather in en route airspace.

The FAA anticipates meeting the FY 2008 On-Time Target of 88.00%.

NAS ON-TIME ARRIVALS

Percentage of Flights No More than 15 Minutes Late



Fiscal Year	2005	2006	2007	2008
Actual	88.44%	88.36%	86.32%[1]	N/A
Target	87.40%	87.40%	87.67%	88.00%

[1]Preliminary estimate until January 2008.

NOISE EXPOSURE

NOISE EXPOSURE: FY 2007 TARGET AND RESULT		
TARGET	Reduce the number of people exposed to significant noise, as measured by a 3-year moving average, to 8% below the 3-year average for calendar years 2000–2002. *Note: This target was revised from a 5% reduction.*	
RESULT	●	–27.00% (*projected*) FY 2007 results are projected to be a reduction of 27%.

Aircraft noise is an undesired by-product of mobility, and FAA acts to reduce the public's exposure to significant noise levels. Public concern and sensitivity to aircraft noise around airports continues to grow, even as more Americans value and depend on air transportation.

We exceeded our FY 2007 performance target to reduce the number of people exposed to significant noise by 8%, as measured by a 3-year moving average, achieving a 27% reduction. The significant reduction in noise exposure since the base year 2000 to 2002 average has been driven by air carrier fleet and operational changes that took place in the aftermath of September 11, 2001. It was expected that a return to more typical fleet compositions and a return to air traffic growth would narrow the "positive gap." However, the return of fleet composition and air traffic to pre-9/11 levels has not occurred at the pace expected. Consequently, the actual number of residents exposed to significant noise remains well below the current target.

In FY 2007, after reviewing historical noise reductions and taking into account recent trends that remain well below the noise target, we increased the FY 2007 noise exposure target from a 1% to a 4% annual reduction. The target is still calculated using a 3-year moving average from the base year from 2000 to 2002 average. In addition, the new noise target reflects the relocation of people away from areas of significant noise exposure

through grant funding. The target is also influenced by market forces that drive changes in commercial aircraft fleets and operations.

FAA continues to pursue a program of aircraft noise control, in cooperation with the aviation community and local governments, through aircraft source noise reduction, soundproofing and buyouts of homes and other noise sensitive buildings near airports, operational flight control measures, and land use planning strategies. While FAA is authorized to provide funds for airport noise compatibility projects, each project must be locally sponsored and approved by FAA.

Achieving significant noise reduction results in the future will be a challenge. Our ability to develop NextGen technologies and have the broadest possible array of available noise mitigation approaches at our disposal will affect our ability to continue making significant improvements in aviation noise exposure.

The plan for NextGen states that by 2025, the demands on the system may triple from what they are today. Environmental trends based on expansion of the U.S. air transportation system show that noise exposure is likely to move upward as traffic growth continues—even taking into account forecasted fleet changes and implementation of beneficial new air traffic procedures.

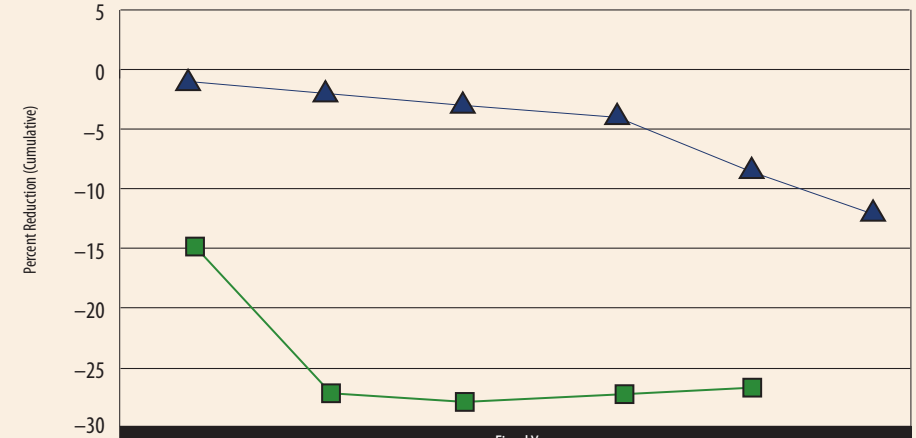
In its reauthorization legislation, FAA proposed to Congress provisions to create a research consortium whose purpose would be to accelerate the development of lower noise and emissions technologies for airframes and aircraft engines and to provide additional support for noise abatement flight procedures and land use planning and projects. It will be important for state and local land use planning to include appropriate consideration of noise-compatible land uses near airports.

In addition, as we take a more integrated approach to environmental impacts, assessing the relative effects of noise, local air quality, and greenhouse gas emissions, and the trade-offs in achieving reductions in each, it remains unclear what the relative importance of reducing noise versus emissions will be in the future.

Based on a projection of operational levels from the Terminal Area Forecast, FAA will meet the target in FY 2008.

NUMBER OF PEOPLE EXPOSED TO SIGNIFICANT NOISE

Cumulative Percentage Reduction from Baseline



Fiscal Year	2003	2004	2005	2006	2007	2008
Actual	–15.00%[1]	–28.00%[1]	–29.00%[2]	–28.00%[2]	–27.00%[3]	N/A
Target	–1.00%	–2.00%	–3.00%	–4.00%	–8.00%	–12.00%

[1]Revised from original result.
[2]Revised from projection.
[3]Projection to be finalized in May 2008.
[4]Target revised during FY 2007.

AVIATION FUEL EFFICIENCY

AVIATION FUEL EFFICIENCY: FY 2007 TARGET AND RESULT		
TARGET	Improve aviation fuel efficiency per revenue plane-mile by 5%, as measured by a 3-year moving average from the 3-year average for calendar years 2000–2002.	
RESULT	●	–10.82% We achieved this performance target by improving aviation fuel efficiency per revenue plane-mile by 10.82%.

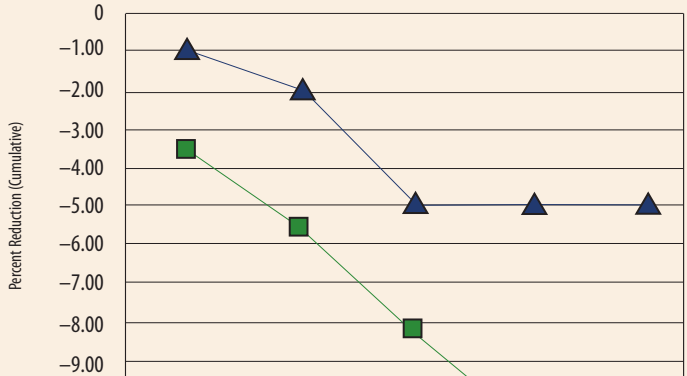
Concern over aviation's contribution to local air quality issues and potential impact on global climate change continues to grow. Measuring and tracking fuel efficiency from aircraft operations allows FAA to monitor emissions improvements in aircraft/engine technology and operational procedures and enhancements in the airspace transportation system.

We achieved the FY 2007 performance target to improve aviation fuel efficiency per revenue plane-mile by 5%, as measured by a 3-year moving average from the 3-year average for calendar years 2000–2002.

In FY 2007, the fuel efficiency improvement relative to the baseline established in FY 2003 was calculated to be a reduction of 10.82%. Even though the number of flights increased, this level of performance above target reflects continued improvement based on a decrease in fuel burned and an increase in distance traveled during calendar year 2006 relative to calendar year 2005. This outcome is better than we anticipated. Our expectation for maintaining a 5% improvement during FY 2007 was based on an equitable distribution of growth in operations across the whole range of flight distances along with the general understanding that there would not be a major influx of new, more fuel efficient aircraft technology into the commercial fleet. In fact we anticipated some regression in fleet by airlines using some less fuel-efficient aircraft that had been in storage in the aftermath of 9/11. Contrary to our expectations, the FY 2007 result is influenced by a growth in the number of flights over shorter distances. Aircraft flown for these types of flights tend to be more efficient on a fuel burned per distance basis.

AVIATION FUEL BURNED PER MILE

Cumulative Percentage Reduction from Baseline



Fiscal Year	2004	2005	2006	2007	2008
Actual	–3.46%[1]	–5.84%	–8.23%	–10.82%	N/A
Target	–1.00%	–2.00%	–5.00%	–5.00%	–5.00%

[1]Revised from original result.

We measure performance against this target using the Aviation Environmental Design Tool (AEDT) System for assessing Aviation Global Emissions (SAGE). AEDT/SAGE is an FAA-developed computer model that estimates aircraft fuel burn and emissions for variable year emissions inventories and for operational, policy, and technology-related scenarios.

For FY 2007 performance, using the full calendar year 2006 operational flight data, we updated our historical database of yearly inventories. The 2006 inventory results were averaged with the previously generated inventories from 2004 and 2005 and compared against the baseline 3-year average.

Going forward, our data models indicate that increases in fuel burn and/or decreases in distance traveled will not significantly degrade the fuel efficiency of the fleet and will not affect our ability to meet our target in FY 2008. However, we do expect that in the coming years aircraft/engine technology improvements and/or air traffic management enhancements may not be sufficient to offset traffic growth and congestion/delays.

Further, we are concerned that the present metric for measuring and tracking fuel efficiency may not adequately capture system performance. Thus we are reviewing the impact of air traffic management enhancements and changes in operational trends to assess whether a revised performance metric should be used for future targets.

INTERNATIONAL LEADERSHIP

GOAL: Increase the safety and capacity of the global civil aerospace system in an environmentally sound manner.

International leadership is the way FAA advances safety and efficiency around the world, to wherever Americans might travel. FAA is uniquely positioned for this undertaking in the global aviation community through expanded technical assistance to other civil aviation authorities and continued emphasis on bilateral agreements to help harmonize aviation safety and environmental quality around the world. Today, the agency has operational responsibility for about half of the world's air traffic, has certified more than two-thirds of the world's large jet aircraft, and has provided assistance to more than 130 countries to improve their aviation systems.

While safety is FAA's top priority domestically and internationally, one cannot overlook the potential that global aviation has with respect to trade and commerce. Aviation systems within and among nations are lifelines to the future, freer trade, accelerated economic growth, and greater cultural exchange. Seamless global aviation is critical to an increasingly global economy that hinges on efficient supply chains and just-in-time manufacturing.

FY 2007 **INTERNATIONAL LEADERSHIP** PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2007 Target	FY 2007 Results	FY 2007 Status	FY 2008 Target[1]
Aviation Safety Leadership Work with the Chinese aviation authorities and industry to adopt 27 proven Commercial Aviation Safety Team (CAST) safety enhancements (SEs) by FY 2011.	7 CAST SEs	10 CAST SEs	●	5 CAST SEs
Bilateral Safety Agreements Conclude at least eight new or expanded bilateral safety agreements that will facilitate an increase in the ability to exchange aviation products and services by FY 2011.	3	3	●	2

FY 2007 **INTERNATIONAL LEADERSHIP** PERFORMANCE MEASURES AND RESULTS				
Performance Measure	**FY 2007 Target**	**FY 2007 Results**	**FY 2007 Status**	**FY 2008 Target[1]**
External Funding Secure a yearly increase in international aviation development funding to strengthen the global aviation infrastructure. Achieve a 100% increase of the FY 2007 baseline target of $12 million in $3 million annual increments for an FY 2011 target of $24 million.	$12.00 M	$13.36 M	●	$15.00 M
NextGen Technologies By 2011, expand the use of NextGen performance-based systems to five priority countries.	1	1	●	1

[1] FY 2008 targets are from FY 2007–2011 *Flight Plan*.
● Goal Achieved

AVIATION SAFETY LEADERSHIP

AVIATION SAFETY LEADERSHIP: FY 2007 TARGET AND RESULT		
TARGET	Assist China in implementing at least seven of the mutually agreed upon safety enhancements to its aviation system. *Note: This measure was redefined in FY 2007, so no trend data are available.*	
RESULT	●	10 CAST Safety Enhancements The Chinese government implemented 10 CAST-recommended SEs.

For FY 2007, FAA and China agreed on a target of implementing at least seven CAST Safety Enhancements (SEs) within China. The Chinese government implemented 10. These SEs included new rules, regulations, training, and equipment to fly in the Chinese airspace system. Some examples include Terrain Awareness and Warning Systems, Airborne Collision Avoidance System, and read-back requirements for air traffic control instructions.

The agency's undertakings in China are but one example of how we have a global impact. FAA works with a variety of countries in an advisory capacity to improve safety systems and processes around the world. CAST was formed in 1997 as a joint government and industry organization dedicated to reducing the commercial air carrier fatal accident rate in the United States. Initially, it focused on the causes of major accidents and developed a series of SEs that eliminated their precursors. These SEs, having first proven successful in reducing fatal air carrier accidents in the United States, have continued to deliver the desired results as they have been implemented around the world.

BILATERAL SAFETY AGREEMENTS

BILATERAL SAFETY AGREEMENTS: FY 2007 TARGET AND RESULT		
TARGET	Conclude at least three new or expanded bilateral aviation safety agreements (BASAs) that will facilitate an increase in the ability to exchange aviation products and services. *Note: This target was revised in FY 2007 from one to three BASAs.*	
RESULT	●	3 FAA concluded or expanded three agreements in FY 2007.

In FY 2007, for the fourth consecutive year, FAA achieved its performance target, concluding three new or expanded Bilateral Aviation Safety Agreements (BASAs) that will facilitate an increase in the ability to exchange aviation products and services. The United States has negotiated agreements with Singapore, Japan, and Mexico that lay the essential groundwork for cooperation between our respective governments and aviation authorities.

A BASA promotes aviation safety and environmental quality, enhances cooperation, and increases efficiency in civil aviation matters. The agreements are based on recognized comparability of U.S. and foreign systems for approval and surveillance of the aviation industry. By building a

network of competent civil aviation authorities and concluding agreements with additional countries and/or regional authorities, FAA increases safety on a global scale.

Improved global understanding of U.S. safety regulations, processes, and procedures leads to better international regulatory oversight. The BASAs allow FAA to focus on U.S. safety priorities by relying on capabilities and technical expertise of other civil aviation authorities and minimizing duplication of efforts.

FAA is collaborating with partners in Europe, Asia, and the Americas to negotiate executive agreements and associated implementation procedures to streamline mutual acceptance of aviation products and services. These agreements lay the essential groundwork for cooperation between the United States and the respective target country's aviation authorities.

In 2006, the Civil Aviation Authority of Singapore (CAAS) requested that the scope of the current BASA be expanded to include U.S. acceptance of Singaporean Supplemental Type Certificates for interior modifications on transport category airplanes. This required a "shadow certification" in which FAA personnel observed CAAS in its certification of a specific product to ensure U.S. aircraft standards and practices are met. With the successful conclusion of the shadow certification in 2007, we expanded the BASA in September.

In addition, a team of FAA inspectors worked with aviation authorities of Mexico, in Mexico City and Querétaro, to complete a Technical Standard Order (TSO) shadow certification. The TSO shadow certification ensures that the minimum performance standard for specified materials, parts, and appliances used on civil aircraft is met. As an intermediate step in aircraft certification cooperation and toward a BASA, a Memorandum of Cooperation was signed to allow for cooperation in production oversight. In September 2007 a formal BASA was signed.

With respect to Japan, in November 2006, teams from FAA and the Civil Aviation Bureau of Japan completed BASA Implementation Procedures for Airworthiness (IPA) negotiations. The BASA IPA is an expansion of the Bilateral Airworthiness Agreement that has been in place with Japan since November 1977. Discussions pertaining to the BASA Executive Agreement and subsequent signing are expected to take place in the near future.

We have more opportunities to ensure the safety of Americans flying abroad, for example, in South Korea. A BASA IPA with South Korea would allow FAA to request technical assistance from Korean Civil Aviation Safety Authority (KCASA) related to supplier surveillance or conformity inspections for South Korean suppliers to U.S. manufacturers. South Korea's rapidly developing aerospace industry supplies products to a large segment of the U.S. aerospace sector. While no BASA exists with South Korea, significant progress was made toward one in FY 2007. For example, we successfully completed an assessment and shadow certification in South Korea, laying the groundwork for concluding a BASA with the KCASA in FY 2008.

Also, FAA and the Directorate General of Civil Aviation (DGCA) of India agreed to undertake various cooperative activities toward a future BASA. FAA representatives met with the DGCA in March 2007 to begin these discussions and to co-develop a plan to achieve a future BASA.

EXTERNAL FUNDING

EXTERNAL FUNDING: FY 2007 TARGET AND RESULT		
TARGET		Secure $12 million in international aviation development funding to strengthen the global aviation infrastructure. *Note: This target was revised from a percentage increase to a dollar value in FY 2007, with subsequent annual increases.*
RESULT		$13.36 million We exceeded our goal for FY 2007.

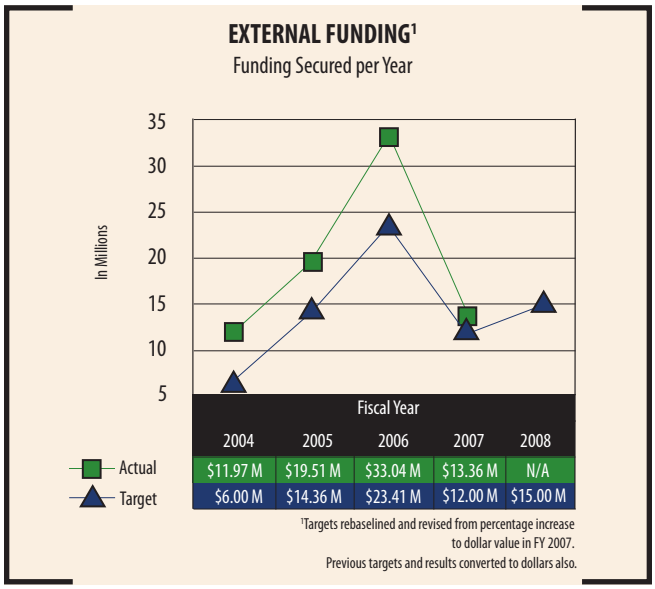
Often countries that could benefit the most from FAA technical assistance are the least able to afford our help. FAA has no grant program to finance international technical assistance. This external funding initiative seeks to leverage the limited resources we are able to contribute to international safety and capacity efforts by implementing a methodology to increase technical and financial assistance from U.S. Government organizations,

multilateral banks, and industry to support global aviation system infrastructure projects.

In FY 2007, we surpassed FAA's $12 million target by securing $13.36 million in funds for technical assistance, aviation cooperation programs, and infrastructure development projects. This sum represents a three-fold increase over the $5 million secured in the base year of FY 2003.

Highlights from FY 2007 include $3.2 million from the Department of State for the Safe Skies for Africa program, $1.8 million from the U.S. Trade and Development Agency for the U.S./China Aviation Cooperation Program, and $6 million from the World Bank, the Asian Development Bank, and the Swedish International Development Cooperation Agency to revitalize Afghanistan's aviation system.

Since its inception in FY 2004, the External Funding program has consistently exceeded its annual funding target. FAA's outreach to U.S. and international funding organizations has significantly increased the level of technical assistance provided to other countries for aviation safety improvements. Our efforts represent an important opportunity to influence the development of global safety standards and procedures, particularly in developing countries and regions. As other countries work to meet international standards, our citizens can travel abroad as safely as at home.



NEXTGEN TECHNOLOGIES

NEXTGEN TECHNOLOGIES: FY 2007 TARGET AND RESULT		
TARGET		Expand the use of NextGen technologies and procedures to one priority country. *Note: This target was redefined in FY 2007, so no trend data are available.*
RESULT	●	1 FAA achieved this goal by means of a bilateral agreement with China.

FAA's ATO successfully continued its strong efforts to further FAA's International Leadership goal through multiple technical assistance efforts related to NextGen performance-based technologies and procedures.

In FY 2007, FAA achieved its performance target of expanding NextGen technology to one priority country by concluding a bilateral agreement with China on the implementation of Reduced Vertical Separation Minima (RVSM). In addition to promoting development of China's airspace infrastructure, RVSM is a key component of the NextGen vision and plans for the United States. Our partnership allows us to assist China with the safe implementation of RVSM based on U.S. standards and practices and also benefits both U.S. carriers and citizens flying in China.

RVSM was the highest priority item for China's Air Traffic Management Bureau as RVSM is critical to managing the expected increase in air traffic volume for the 2008 Beijing Summer Olympic Games. We are providing assistance and guidance to China with air traffic-related RVSM issues, procedures, and training, as well as with the establishment and validation of a regional monitoring agency function to ensure safe separation of RVSM-compliant aircraft. To further China's RVSM efforts, we participated in several ICAO RVSM Task Force Meetings and other Asia-Pacific regional forums to reinforce our support.

Further, the agency continued its support to India with the development and certification of its regional satellite navigation system—GPS and Geo-Augmented Navigation—as well as the outlining of several technical assistance projects on air traffic initiatives to be addressed in FY 2008.

FAA contributed to the ICAO RNP Study Group that successfully completed initial activity to revise and distribute the Performance-Based Navigation (PBN) Manual. We also partnered with ICAO and EUROCONTROL to conduct the first PBN Manual Familiarization Seminar. Additional seminars were conducted in September 2007 in the Asia Pacific region (Bangkok, Thailand, and New Delhi, India), and others are scheduled throughout other ICAO regions for early FY 2008.

Further achievements include our initiation of NextGen Steering Group meetings with both China and Japan and the kick-off of the First Trilateral (Canada, Mexico, and United States) NextGen Strategy Group meeting. These steering groups are official avenues in which the United States can adopt cooperative efforts to harmonize implementation of NextGen with other countries' future air traffic system modernization plans.

ORGANIZATIONAL EXCELLENCE

GOAL: Ensure the success of FAA's mission through stronger leadership, a better trained workforce, enhanced cost-control measures, and improved decision-making based on reliable data.

Organizational excellence is an ongoing challenge. As the aviation community continues to face a tough economic environment, FAA faces many difficult management challenges as well. FAA's central management strategy for achieving organizational excellence is to deliver the results described in the *Flight Plan* and to refine our focus on the PMA.

Our efforts this year focused on submitting to Congress the NextGen Reform Act of 2007 to provide for transformation of air transportation to the NextGen system and working with users of the system to get new legislation passed before October 1, 2007. We also targeted air traffic controller recruitment and placement and have a full pipeline of new controllers across the country. We sustained success on the PMA–Human Capital and accomplished our goals for the past 3 years.

FY 2007 **ORGANIZATIONAL EXCELLENCE** PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2007 Target	FY 2007 Results	FY 2007 Status	FY 2008 Target[1]
STRATEGIC MANAGEMENT OF HUMAN CAPITAL				
Employee Attitude Survey (cumulative percentage increase) Increase Employee Attitude Survey scores in the areas of management effectiveness and accountability by at least 5%, over the FY 2003 baseline of 35% by FY 2010.	38.00%	N/A	▲	TBD
Mission-Critical Positions By FY 2011, reduce the time it takes to fill mission-critical positions by 7% (to 51 days) over the FY 2006 baseline of 55 days.	–1.00%	–30.91%	●	–3.00%
Reduce Workplace Injuries Reduce the total workplace injury and illness case rate to no more than 2.44 per 100 employees by the end of FY 2011, representing a cumulative 3% annual reduction from the FY 2003 baseline (3.12) set in the Safety, Health, and Return to Employment (SHARE) Presidential Initiative.	2.76 per 100	2.56 per 100[2]	●	2.68 per 100
Grievance Processing Time Reduce grievance processing time by 25% by FY 2010 and maintain the reduction through FY 2011.	–10.00%	–61.64%	●	–15.00%
Air Traffic Controller Workforce Plan Maintain air traffic control workforce at or up to 2% above the projected annual totals in the Air Traffic Controller Workforce Plan.	0% to 2% over plan	0.45% over plan	●	0% to 2% over plan

FY 2007 **ORGANIZATIONAL EXCELLENCE** PERFORMANCE MEASURES AND RESULTS				
Performance Measure	**FY 2007 Target**	**FY 2007 Results**	**FY 2007 Status**	**FY 2008 Target[1]**
IMPROVED FINANCIAL PERFORMANCE				
Cost Reimbursable Contracts Close out 85% of eligible cost reimbursable contracts.	85.00%	95.00%	●	85.00%
Cost Control Organizations throughout the agency will continue to implement cost efficiency initiatives including, but not limited to 10%–15% savings for strategic sourcing of selected products and services; consolidating facilities and services, such as service areas, real property management, and web services; 3% reduction in help desk operating costs through consolidations; eliminating or reducing obsolete technology; and $15 million reduction in Information Technology operating costs.	1 activity per organization	1 activity per organization	●	1 activity per organization
Clean Audit With No Material Weaknesses Obtain an unqualified opinion with no material weaknesses (NMW) on the agency's financial statements each fiscal year.	Clean Audit w/NMW	Clean Audit with one material weakness	▲	Clean Audit w/NMW
ACQUISITION MANAGEMENT				
Critical Acquisitions on Budget By FY 2008, 90% of major system acquisition investments are within 10% of annual budget and maintain through FY 2011.	87.50%	100.00%	●	90.00%
Critical Acquisitions on Schedule By FY 2008, 90% of major system acquisition investments are on schedule and maintain through FY 2011.	87.50%	97.00%	●	90.00%
CUSTOMER SATISFACTION AND OPERATIONAL CAPABILITY				
Customer Satisfaction Increase agency scores on the American Customer Satisfaction Index (ACSI) which surveys commercial pilots.	66	64	▲	67
Information Security Achieve zero cyber security events that disable or significantly degrade FAA services.	0	0	●	0

[1] FY 2008 targets are from FY 2007–2011 *Flight Plan*.
[2] Projection from trends until November 2007.
For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.
● Goal Achieved
▲ Goal Not Achieved

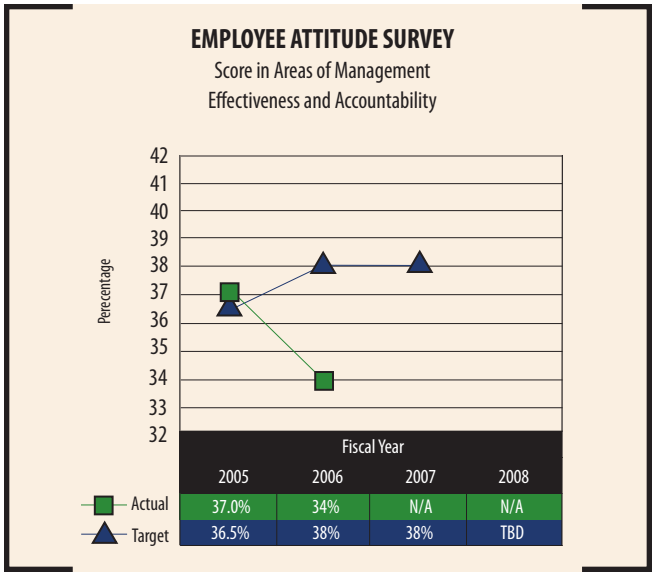
STRATEGIC MANAGEMENT OF HUMAN CAPITAL

Employee Attitude Survey

EMPLOYEE ATTITUDE SURVEY: FY 2007 TARGET AND RESULT		
TARGET		Increase the score of the Employee Attitude Survey measure for the areas of management effectiveness and accountability to 38% positive.
RESULT	▲	N/A We did not meet the target of a 3% increase over the baseline of 35%.

The employee attitude survey (EAS) is one of 30 FAA *Flight Plan* goals used to assess agency performance as well as a factor in determining the amount of the Organizational Success Increase (OSI). It has been determined that the FY 2007 EAS results were compromised rendering them invalid. As a result, the EAS results will not be considered in determining the agency's OSI. FAA organizations will, however, continue to implement their EAS Action Plans that are based on the 2006 EAS results. In addition, we are revising our FY 2008 *Flight Plan* performance target for leadership and accountability. These actions ensure that we continue our efforts to foster better employee

recognition and greater management effectiveness and accountability.



Mission-Critical Positions

MISSION-CRITICAL POSITIONS: FY 2007 TARGET AND RESULT		
TARGET	Reduce the time it takes to fill mission-critical positions by 1% (to 54 days) from the current FY 2006 baseline of 55 days. *Note: In FY 2008, this performance measure will be replaced with the OPM 45-Day Hiring Standard.*	
RESULT	●	–30.91% We successfully achieved our goal. *Note: In FY 2007, this measure was redefined, so no trend data are available.*

One crucial element of ensuring safety and greater efficiency through organizational excellence is an efficient and high-quality hiring process for filling mission-critical positions (MCPs). With more employees becoming retirement-eligible each year, it is in the agency's best interest to ensure that mission-critical hiring is accomplished in a timely manner and nets the qualified individuals needed to achieve mission results.

The agency met its FY 2007 target to reduce the time to fill mission-critical positions by 1% (to 54 days) over the FY 2006 baseline of 55 days. This performance target measures the time-to-fill MCPs from the date an action to fill a position is received from the hiring organization to the date the job is offered to the individual who fills the job. The measure assesses the time-to-fill for the positions of Transportation Specialist, Aviation Safety Inspector, Engineering and Electronics Technician, and Engineer and Information Technology Specialist filled both internally and externally. The time-to-fill for Air Traffic Controller positions is tracked and monitored separately. In FY 2006, this performance measure was rebaselined without Air Traffic Controller positions (which are tracked separately), and new targets were established.

Measuring the time it takes to fill positions is a critical first step in improving the hiring process. Through this measurement process, FAA has achieved greater efficiencies and significantly improved practices in hiring the agency's most valuable asset, its people. The time-to-fill was significantly reduced this year as a result of a number of actions. Specifically these actions were

- AHR Management reduction of the initial amount of time permitted to select from the pool of qualified candidates from 90 to 45 days, which has resulted in a more efficient process for filling MCPs
- The ongoing education of selecting officials on their ownership of a large part of the hiring process, which promoted better understanding and working partnerships between selecting officials and HR offices on this goal
- Our review and emphasis on data integrity, which have uncovered incomplete and inconsistent data
- The ongoing investigation and correction of process barriers within AHR to meeting the time-to-fill metric
- Follow up with lines of business on all candidate certificates pending for over 30 days

Reduce Workplace Injuries

REDUCE WORKPLACE INJURIES: FY 2007 TARGET AND RESULT		
TARGET	Reduce the total workplace injury and illness case rate to no more than 2.76 per 100 employees by the end of FY 2007.	
RESULT		2.56 *(projected)* We exceeded our target for FY 2007. *Note: This was a new performance measure in FY 2006, so no trend data are available.*

FAA's *Flight Plan* performance target is to reduce the total workplace injury and illness case rate to no more than 2.44 per 100 employees by the end of FY 2011, representing a cumulative 3% annual reduction from the FY 2003 baseline (3.12) set in the Safety, Health, and Return to Employment (SHARE) Presidential Initiative. In FY 2007, FAA met its target to reduce the total workplace injury and illness case rate to no more than 2.76 per 100 employees, achieving a rate of 2.56.

The National Occupational Safety and Health (OSH) Program Evaluations identified opportunities that FAA lines of business and staff offices could use to reduce injury and illness in the workplace. FAA's top executives communicated them throughout the organization and ensured that the supporting programs were instituted.

FAA's efforts to reduce workplace injuries include a comprehensive program consisting of top management leadership, policy, oversight, and program planning. In addition, we increased efforts to train employees on how to work safely and to ensure they have the necessary personal protective equipment to perform their jobs. Facility inspections are conducted regularly to identify and abate hazards. When accidents and incidents occur, they are thoroughly investigated to ensure that appropriate corrective action is taken.

As senior managers became more aware of injuries and illnesses and how to prevent them, the number and severity of reportable injuries decreased. Recognizing that employee recovery time is related to the speed with which the injured employee receives medical attention, supervisors have shown appropriate concern for employees' health after even minor accidents and injuries. The supervisor, as well as the staff from the Workers' Compensation Program, maintain contact with employees through their recovery and welcome them back to work with an adjusted schedule, as needed.

However, prevention is the key to averting workplace injuries. Bearing this in mind, FAA has taken steps to engineer hazards out of the workplace in order to improve overall safety. Occupational safety and health points of contact in each line of business use data from the Safety Management Information System, which contains records including the type of incident, the injury or illness caused, a description of the damage, and what actions have been taken to prevent recurrence. This information is used to track goal accomplishment and to increase employee safety awareness.

Injury reduction is achieved throughout the organization when employee awareness and participation is high, leadership supports OSH activities, and risks are identified and mitigated. Each year, FAA pays nearly $90 million of direct costs resulting from current and past workplace injuries and illnesses with indirect costs adding significantly to that total. We expect this initiative to continue to have significant beneficial impacts, both now and in the long term.

Grievance Processing Time

GRIEVANCE PROCESSING TIME: FY 2007 TARGET AND RESULT		
TARGET	Reduce average grievance processing time by 10% to 131 days from the FY 2006 baseline of 146 days.	
RESULT		–61.64% We exceeded our target. *Note: This was a new performance measure in FY 2006, so no trend data are available.*

The goal of any grievance procedure is to resolve employee and union complaints at the lowest level possible, with the least amount of time, resources, and disruption to the work environment

and mission. The *Flight Plan* calls for a 25% total reduction in grievance processing time (GPT) to be reached by FY 2010 and maintained through FY 2011. In FY 2007, we met our target to reduce grievance processing time by 10% (131 days) and achieved an actual reduction of 61.64% (56 days).

The wide margin by which we exceeded the target is attributed to the following factors:

- During FY 2007, we targeted grievances with processing times that exceeded 100 days. Through a series of one-on-one meetings between headquarters staff and various regional labor relations staff offices, we reviewed the specific grievance records, identified appropriate courses of action, and closed out many of these long-term records.
- The Grievance Electronic Tracking System (GETS) workgroup establishes and documents protocols, methodologies, and training for using GETS. "Tips and Tricks" are periodically sent to all GETS users, providing useful tips and information about working with the system. These electronic messages are maintained and serve as a source of training documentation.
- An August 2007 conference offered hands-on GETS training for the points of contact in the regions and headquarters. Main topics included a discussion of the GPT *Flight Plan* goal; advanced searching/reporting; and new features such as group (mass) grievance processing.

Air Traffic Controller Workforce Plan

AIR TRAFFIC CONTROLLER WORKFORCE PLAN: FY 2007 TARGET AND RESULT		
TARGET	Maintain the air traffic control workforce at or up to 2% above the projected annual totals in the *Air Traffic Controller Workforce Plan*.	
RESULT	●	0.45% We met our target for FY 2007. *Note: This measure is a new measure for FY 2007 so no trend data are available.*

In FY 2007, FAA achieved the performance target of maintaining the air traffic controller workforce at or up to 2% above the projected annual totals in the *Air Traffic Controller Workforce Plan*. While the actual number of hires exceeded the hiring target, attrition, due to higher than expected losses to operations and supervisor staff, retirements, and training failures, also exceeded the plan's targets. However, hires outpaced losses, enabling us to surpass our full year staffing target.

This was due in large part to recruiting diverse applicants for Air Traffic Controller positions by recruiting the next generation of workers through the channel they know best—the Internet. Using this recruiting source, we are seeing highly qualified applicants and have experienced a high level of success in recruiting efforts as a result. We also purchased print advertising and conducted outreach to students at more than 800 colleges and universities, and marketed employment opportunities at military transition centers, state and local employment services, and Government recruitment centers.

In addition, we updated the *Air Traffic Controller Workforce Plan,* which provides a comprehensive 10-year strategy to ensure we have the right number of controllers in the right place at the right time. In the February 2007 Inspector General (IG) report, *FAA Continues to Make Progress in Implementing Its Controller Workforce Plan, but Further Efforts Are Needed in Several Key Areas,* the IG confirms our progress and found that "FAA has made significant progress implementing a comprehensive staffing plan." The IG found we have made significant improvements by centralizing our hiring process and have made progress in reducing the time and costs to train new controllers, primarily through the use of simulator training at the FAA Training Academy and implementation of a new national database to track on-the-job training statistics.

FAA understands how critical it is to have an adequately staffed air traffic controller workforce. Staffing is, and will continue to be, monitored at all facilities. We will continue to take action at the facility level should adjustments become necessary due to changes in traffic volume, unanticipated retirements, or other attrition.

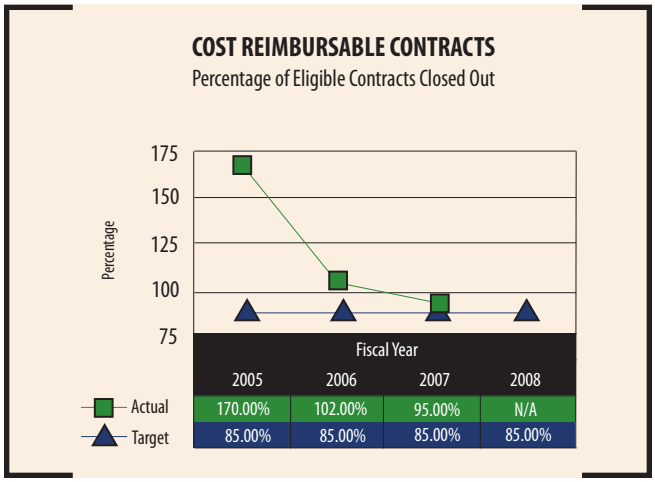
IMPROVED FINANCIAL PERFORMANCE

Cost Reimbursable Contracts

COST REIMBURSABLE CONTRACTS: FY 2007 TARGET AND RESULT		
TARGET	Close out 85% of eligible cost reimbursable contracts.	
RESULT	●	95.00% FAA exceeded its goal of closing out 54 contracts. *Note: In FY 2006, FAA's contract closeouts exceeded the number of contracts eligible by 102%. The percentage of contracts closed varies year-to-year due to the differing number of contracts eligible for closeout each year and the different circumstances that affect the closeout process.*

The FY 2007 goal for cost reimbursable contract closeout was 54 contracts, which is 85% of the 63 cost type contracts that were eligible for closeout in the prior two fiscal years. In FY 2007, FAA achieved its target and closed 60 cost-reimbursable contracts, or 95% of the target. To achieve these goals, we focused on maintaining appropriately high close-out rates to avoid such issues as the loss of expired funds, loss of file documents, loss of vendor's corporate knowledge, or changes in the contractor's business status.

Closing contracts on a timely basis supports organizational excellence by improving financial management of the agency's contracts. A high number of unclosed contracts can create potentially large liabilities where final amounts are due to or from the contractor, in addition to losing the use of funds that could otherwise be recouped. By focusing on contracts eligible for closeout, contracts are administered more efficiently and the agency's liability is reduced.



Cost Control

COST CONTROL: FY 2007 TARGET AND RESULT		
TARGET	Organizations throughout the agency will continue to implement cost control initiatives by applying at least one cost control activity per organization.	
RESULT	●	1 FAA met this goal for the third year in a row.

The *Flight Plan* performance target for Cost Control was expanded to include 10% to 15% savings for strategic sourcing of selected products and services, consolidations of facilities and services, 3% reduction in help desk operating costs, elimination of obsolete technology, and $15 million reduction in IT costs. In FY 2007, FAA not only met this target but exceeded it. Organizations throughout the agency implemented at least one cost saving or avoidance activity, accruing total cost savings and avoidance of $60 million.

The SAVES program saved substantial Federal dollars through new contracts for office supplies, office equipment, IT hardware, and courier/overnight mail services. By obtaining goods and services at cost-effective rates, we have been able to ensure a high rate of utilization and compliance with this program by FAA organizations.

In addition, FAA's Office of Information Services (AIO), along with the ATO and Regions and Center Operations (ARC), reduced IT operating costs through server consolidation, help desk consolidation, Oracle Enterprise License Agreement, Dell BPA contract, Patch Management, and PC standardization.

Through effective management of the Workers' Compensation Program, the agency continues to achieve significant cost avoidance. Since 2003, we have reduced our bill by 1.5%, while the rest of Government has increased by 6.8%. Further, FAA completed its consolidation of accounting

operations in Oklahoma City and avoided staff support costs totaling $4.6 million.

Clean Audit With No Material Weaknesses

CLEAN AUDIT WITH NO MATERIAL WEAKNESSES: FY 2007 TARGET AND RESULT		
TARGET	Obtain a clean audit (unqualified opinion with no material weaknesses) on the agency's financial statements each fiscal year.	
RESULT	▲	Unqualified Opinion with One Material Weakness We did not meet this target for FY 2007 as we incurred one material weakness in the audit opinion of our financial statements.

The unqualified audit opinion target is a critical indicator of an agency's financial condition, because it independently assesses the fair presentation of FAA's financial statements, and in connection with that process, considers the internal controls over financial reporting.

After 5 years of unqualified audit opinions, we received a qualified opinion on our FY 2006 financial statements due to the lack of documentation supporting our Construction in Progress (CIP) balance. We have been transparent in our public disclosure about both the qualified opinion and the immediate remediation initiative we undertook to correct the deficiency. After an intensive, year-long effort to review the balance and restate our FY 2006 financial statements, the auditors issued a revised opinion—now unqualified—on our restated FY 2006 financial statements.

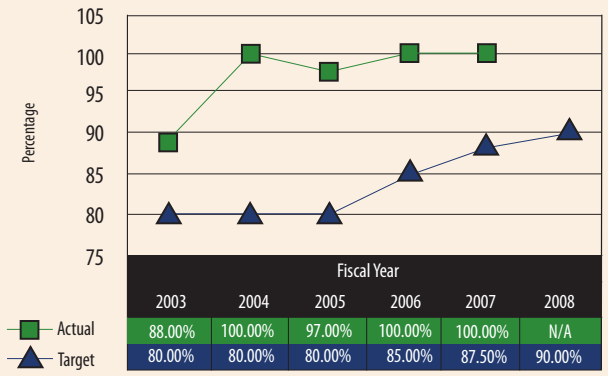
In addition, we received an unqualified opinion on our FY 2007 financial statements. However, we incurred a material weakness related to the timely processing of transactions and accounting of Property, Plant, and Equipment, including the CIP account. To address this weakness, we have restructured roles and responsibilities and reallocated resources to make additional improvements to our capitalization processes. The new organizational change will enable more accountability and transparency in the capitalization process and enable us to keep our CIP balance current and accurate.

ACQUISITION MANAGEMENT

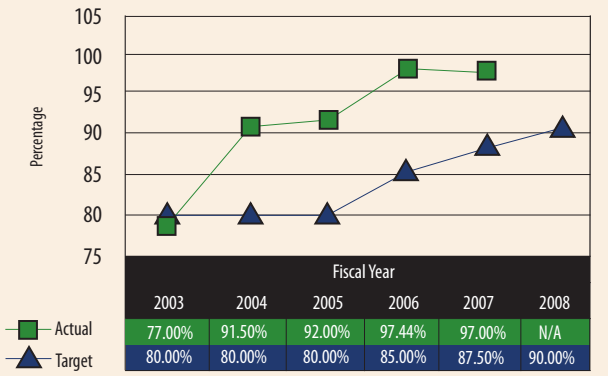
Critical Acquisitions on Budget/Critical Acquisitions on Schedule

CRITICAL ACQUISITIONS ON BUDGET/CRITICAL ACQUISITIONS ON SCHEDULE: FY 2007 TARGET AND RESULT		
TARGET	Ensure that 87.5% of critical acquisition programs are on schedule and 87.5% of critical acquisition programs are within 10% of budget as reflected in the Capital Investment Plan.	
RESULT	●	100% on budget / 97% on schedule FAA met its performance goals for both targets.

CRITICAL ACQUISITIONS ON BUDGET
Percentage of Programs Within Planned Budget



CRITICAL ACQUISITIONS ON SCHEDULE
Percentage of Programs Meeting Scheduled Milestones



Lifecycle acquisition management is built around a logical sequence of phases and decision points. The agency uses these phases and decision points to determine and prioritize needs, make sound investment decisions, implement solutions efficiently, and manage services and assets over their lifecycle. The overarching goal is continuous improvement in delivering safe, secure, and efficient services over time. By tracking cost and schedule milestones, FAA ensures that taxpayer dollars spent through acquisition programs achieve desired performance outcomes.

FAA exceeded the FY 2007 performance targets for major acquisitions cost and schedule. We tracked 67 milestones against 37 acquisition programs for this performance measure and have met the variances for cost and schedule.

We accomplished 65 of the 67 milestones (97%) on schedule. For the cost goal, no program reflected a variance of more than 10% in cost, resulting in a 100% performance rating.

One of the most important steps in controlling costs is to ensure that capital programs are effectively managed. FAA major capital programs are on track to meet established targets. These programs provide navigation, surveillance, computer processing capabilities, tools for air traffic controllers, telecommunications infrastructure, and weather information to make the NAS run smoother.

Key factors influenced by a number of initiatives continue to contribute to our success in meeting our yearly acquisition goals. The acquisition goals are linked to FAA's strategic *Flight Plan*, which receives continuous executive oversight.

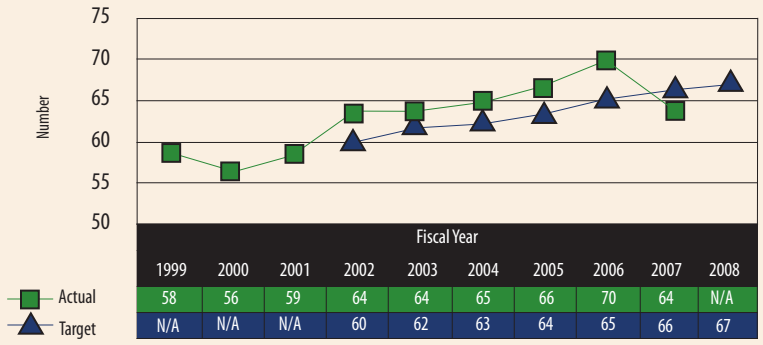
FAA also established a series of program performance metrics that senior executives review quarterly, including financial status, acquisition baseline milestones, annual milestones, earned value performance data, and technical requirements. Programs are also segmented into more manageable phases, which results in better planning and performance measurement. In addition, the Capital Investment Team reviews and evaluates the costs and benefits of existing programs and proposed capital investments.

CUSTOMER SATISFACTION AND OPERATIONAL CAPABILITY

Customer Satisfaction

CUSTOMER SATISFACTION: FY 2007 TARGET AND RESULT		
TARGET		Increase agency scores on the American Customer Satisfaction Index to 66.
RESULT	▲	64 FAA did not meet its customer satisfaction FY 2007 target of 66 or higher, achieving an ACSI score of 64.

CUSTOMER SATISFACTION INDEX SCORE FOR COMMERCIAL PILOTS



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Actual	58	56	59	64	64	65	66	70	64	N/A
Target	N/A	N/A	N/A	60	62	63	64	65	66	67

The agency uses the American Customer Satisfaction Index (ACSI), which is administered by researchers at the Stephen M. Ross School of Business at the University of Michigan, to measure customer satisfaction with pilots who hold current commercial licenses and first- or second-class medical certificates. These pilots are asked to rate their satisfaction with air traffic control personnel and services, pilot certification processes, and the clarity of regulation and how they contribute to aviation safety.

FAA did not achieve its FY 2007 target of increasing agency scores on the ACSI to 66. We achieved a score of 64. This was only the second time that the score did not increase since 1999. Scores dropped—from 70 in FY 2006 to 64 this fiscal year—primarily because of a decrease in the area of Policy, Standards, and Regulations.

FAA works continuously to improve overall performance and customer satisfaction. The survey as presently structured does not provide the reasons pilots responded the way they did. We will refine the survey to better understand issues identified by experienced pilots.

Information Security

INFORMATION SECURITY: FY 2007 TARGET AND RESULT		
TARGET	Zero cyber security events that significantly disable or degrade FAA services.	
RESULT		0 FAA met its goal for the third consecutive year.

During FY 2007, there were approximately 5 million attempts made monthly to disrupt service on our network. Yet, there were no successful cyber events that significantly disabled or degraded our service.

FAA has an information security mandate to protect the agency's IT assets in accordance with DOT and FAA policy and numerous executive and legal requirements, including the Computer Security Act, Executive Order 13231, and the Federal Information Security Management Act (FISMA). Accordingly, FAA, whose mission is to ensure the safe and efficient movement of aircraft, must be protected against the threat of cyber attacks.

To achieve success and to meet statutory requirements, we completed 100% of the security reviews of our IT systems and ensured that 100% of the IT systems targeted for Re-Certification and Authorization identified in the DOT Enterprise Security Portal were completed. Further, FAA Cyber Security Incident Response Center (CSIRC) implementation of the Security Information Management solution provided greater situational awareness capability through near real-time processing of information systems security alerts. This information sharing contributed to an improved recovery rate during times of cyber attacks.

COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

FAA uses performance data extensively for program management, personnel evaluation, and accountability in prioritizing its facility evaluations and audits. The data are also used on a daily basis to track progress toward achieving performance goals.

The following are summaries of FAA's processes for maintaining the completeness and reliability of its performance reporting. For a discussion of the management controls established by FAA to ensure the quality of performance data, see "Verification and Validation of Performance Information" in the *Performance Highlights* section of this report.

Safety

Commercial Air Carrier Fatal Accident Rate/ General Aviation Fatal Accidents/Alaska Accidents

The accident data for these measures come from the National Transportation Safety Board (NTSB) Aviation Accident Database. Aviation accident investigators under the auspices of the NTSB develop the data. Departure data for the Commercial Air Carrier Fatal Accident Rate are submitted by carriers to the Office of Airline Information (OAI) within the Bureau of Transportation Statistics (BTS).

Both accidents and departures are censuses, having no sampling error. However, missing data, particularly in the departure counts, will result in bias to some degree. NTSB and FAA's Office of Accident Investigation meet regularly to validate information on the number of accidents. Accident data are considered preliminary. NTSB usually completes investigations and issues reports on accidents that occur during any fiscal year by the end of the next fiscal year. Results are considered final when all those accidents have been reported in the NTSB press release published each March. FY 2007 results will therefore be final after the March 2009 press release. In general, however, accident numbers are not likely to change significantly between the end of the fiscal year and the date they are finalized.

FAA does comparison checking of the departure data collected by the BTS for the Commercial Air Carrier Fatal Accident Rate. However, FAA has no independent data sources against which to validate the numbers submitted to BTS. FAA compares its list of carriers to the DOT list to validate completeness.

To overcome reporting delays of 60 to 90 days, FAA relies on historical data, partial internal data sources, and *Official Airline Guide* (OAG) scheduling information to project at least part of the fiscal year departure data. Due to reporting procedures in place, it is unlikely that calculation of future fiscal year departure data will be markedly improved. Lacking complete historical data on a monthly basis and independent sources of verification increases the risk of error in the activity data.

Most accident investigations are a joint undertaking—NTSB has the statutory responsibility, but in fact, most of the accident investigations related to general aviation are conducted by FAA Aviation Safety Inspectors without direct involvement of NTSB. FAA's own accident investigators and other FAA employees participate in all accident investigations led by NTSB investigators.

Runway Incursions

Runway incursion data are recorded in the FAA National Airspace Information Monitoring System. Preliminary incident reports are entered by air traffic controllers and pilots. They are evaluated when received and can take up to 90 days to complete. Following the close of the fiscal year, the year-end data are typically not finalized for 90 days.

Surface operational error/deviation, surface pilot deviation, and vehicle/pedestrian deviation reports are reviewed on a daily basis to determine whether the incident meets the definition of a runway incursion. Runway incursions are a subset of all the incident data collected; completeness of the data is based on the reporting requirements for each of the incident types.

FAA verifies and validates the accuracy of the data through reviews or preliminary and final reports. Reconciliation of the data is conducted monthly, and anomalies are explored and resolved. In cases where major problems are identified, a request to re-submit is issued. FAA conducts annual reviews of reported data and compares them with data reported from previous years.

Commercial Space Launch Accidents

The source of commercial space launch data is FAA's Office of the Associate Administrator for Commercial Space Transportation (AST). AST monitors all licensed launch operations and maintains documented reports of each licensed event. These reports are generated by AST's assigned field inspectors and duty officers for a given launch event. They include all relevant details pertaining to the outcome of the licensed launch or reentry operation including the occurrence of any public fatalities, injuries, or property damage. AST also uses other sources of data such as the launch vehicle operator and Federal, state, and local government officials.

AST's Licensing and Safety Division maintains and verifies reports that an accident resulting from a licensed launch operation has occurred and supports coordination with other Federal agencies, which may include the NTSB and the military on any

subsequent investigations. If an accident occurs, FAA and the NTSB will complete official reports fully documenting circumstances associated with the event.

Operational Errors

Air traffic controllers are required to report operational errors. In addition, the Operational Error Detection Patch (OEDP), a software program used by FAA's air traffic facilities, detects possible operational errors and sends alert messages to supervisory personnel. Facility management reviews OEDP alerts and data provided from the National Track Analysis Program to determine if an operational error has occurred. The information is summarized in the FAA Air Traffic Operational Error and Deviation Database.

FAA's Air Traffic Order 7210.56 requires all facilities to submit operational error reports within 3 hours of the event. The data are typically not finalized for 90 days following the close of the fiscal year. We have implemented procedures that require facilities to conduct random audits of radar data to identify unreported operational errors. FAA headquarters also conducts random audits of selected facilities based on the identification of unreported events. Facility management and personnel are subject to corrective action for noncompliance in reporting operational errors.

FAA verifies and validates the accuracy of the data through reviews or preliminary and final reports. Reconciliation of the databases is conducted monthly and anomalies are explored and resolved. In cases where major problems are identified, a request to re-submit is issued. FAA conducts annual reviews of reported data and compares the data with data reported from previous years.

Safety Risk Management

The safety risk management (SRM) process ensures that safety-related changes are documented; risk is assessed and analyzed; unacceptable risk is mitigated; hazards are identified and tracked to resolution; the effectiveness of the risk mitigation strategies is assessed; and the performance of the change is monitored throughout its lifecycle.

FAA's ATO works with its operational service units to compile a repository of hazards associated with changes to the NAS in a database known as the FAA Hazard Tracking System. In addition, WebCM, a configuration management tool, is updated to require SRM on all NAS Change Proposals. These data are then used to audit the application of SRM.

Each ATO Service Unit is responsible for ensuring that safety analyses are documented, complete, and accurate. FAA approves SRM documents and checks for service unit compliance with SRM through an audit process developed in 2007.

Capacity

Daily Airport Capacity (35 OEP Airports/ 7 Metropolitan Areas)

The Aviation System Performance Metrics (ASPM) database, maintained by FAA's Office of Aviation Policy and Plans, provides the data for this measure. By agreement with FAA, ASPM flight data are filed monthly by 23 major air carriers for all flights to and from most large and medium hubs. These data are supplemented by flight records contained in the Enhanced Traffic Management System (ETMS) and flight movement times provided by Aeronautical Radio, Inc. (ARINC). Also included within ASPM are arrival and departure rates provided by the individual facilities.

Fiscal year data are finalized approximately 90 days after the close of the fiscal year. The reliability of ASPM is verified on a daily basis by the execution of a number of audit checks, comparison to other published data metrics, and through the use of ASPM by over 1,500 registered users.

Annual Service Volume

Annual Service Volume (ASV) is calculated using the Runway Delay Simulation Model. The measure is derived from model estimates that are subject to errors in model specification. Delay curves are developed for each of the 35 OEP airports for the existing airport layout and with new runways where proposed. The calculation of airport capacity is based on demand schedules and fleet mixes,

supplemented with flight counts and standard air traffic control procedures for each airport. Demand schedules and fleet mixes are developed from recent OAG information. Flight counts are obtained from airport traffic control tower logs. In addition, standard air traffic control procedures are used for each airport.

FAA's NAS Advanced Concept Branch provides technical support to develop a consistent method of calculating the individual airport ASV through the FAA Technical Center, Atlantic City, NJ. Recalculations of the original ASV studies have not been necessary. Once developed, the delay curves remain accurate unless a major change in fleet mix or operational characteristics occurs at an airport.

Adjusted Operational Availability

The National Airspace System Performance Analysis System (NASPAS) is the official source of equipment and service performance data for FAA. NASPAS was developed to analyze outages of the Air Traffic Control Facilities in the NAS. NASPAS receives monthly updates of outage data from the National Outage Database (NODB). The Maintenance Management System (MMS) contains individual equipment outage data as recorded by the system specialist.

FAA's Quality Assurance and Performance Team conducts monthly reviews of all Log Interrupt Reports entered into the MMS to ensure the data, which reside in the NODB, are as complete and accurate as possible.

NAS On-Time Arrivals

FAA's ASPM database, supplemented by DOT's Airline Service Quality Performance (ASQP) causation database, provides the data for this metric. By agreement with FAA, ASPM flight data are filed by certain major air carriers for all flights to and from most large and medium hubs. The data are further augmented by flight records contained in the ETMS and flight movement times provided by ARINC.

Fiscal year data are finalized approximately 90 days after the close of the fiscal year. The reliability of ASPM is verified on a daily basis by the execution of a number of audit checks, comparison to other published data metrics, and use of ASPM by over 1,500 registered users. ASQP data are filed monthly with DOT under 14 CFR Part 234, Airline Service Quality Performance Reports, which separately requires reporting by major air carriers on flights to and from all large hubs.

Noise Exposure

FAA uses the Model for Assessing Global Exposure to the Noise of Transport Aircraft (MAGENTA) to estimate exposure to significant aircraft noise, defined as noise above the Day-Night Sound Level (DNL) of 65 decibels. MAGENTA uses FAA's Integrated Noise Model to calculate DNL contours for the top 97 U.S. airports. These contours are superimposed on census data to determine the number of people residing within them. For smaller airports, the contour is calculated using statistical analysis of operations data. Individual airport data are summed, and the number of people relocated through the Airport Improvement Program is deducted from the total number exposed.

The U.S. version of MAGENTA, developed in 2002, uses updated population data from the 2000 census. The data source for airport traffic is the Enhanced Traffic Management System (ETMS) database, which includes unscheduled air traffic and allows for accurate modeling of freight, general aviation, and military operations. The ETMS also provides details on aircraft type for accurate distribution of aircraft fleet mix. Data on the number of people relocated through the Airport Improvement Program are collected from FAA regional offices. Local traffic utilization data are collected from individual airports and updated periodically.

The ETMS does not contain current-year data, so the FAA Terminal Area Forecast (TAF) is used to provide current and accurate information on projected increases at specific airports. The preliminary results reported at the end of the fiscal year are based on TAF projections. These results are finalized using actual ETMS data by the following May.

The noise exposure measure is derived from estimates that are subject to errors in model specification. FAA has replaced the actual number of people exposed to significant noise with the percentage decrease in the number of people exposed, measured from the 3-year average for calendar years 2000–2002. The move from actual numbers to a percentage helps avoid confusion over U.S. noise exposure trends caused by annual improvements to the noise exposure model and will better show the trend in aircraft noise exposure. The use of a 3-year average stabilizes noise trends, which can fluctuate from year to year and are affected by unusual events such as the 9/11 attacks and the subsequent economic downturn.

No actual count is made of the number of people exposed to aircraft noise. Aircraft type and event level are current. However, some of the databases used to establish route and runway utilization were developed between 1990 and 1997, with many of them now over 9 years old. Changes in airport layout, including expansions, may not be reflected. FAA continues to update these databases as they become available. The benefits of federally funded mitigation, such as buyouts, are accounted for.

The substitution of the ETMS and the TAF for the less comprehensive and specific data sources used by the first version of MAGENTA has resulted in significant improvements in our ability to estimate noise exposure around U.S. airports. The scope of the measure originally included only scheduled commercial jet transport traffic at major U.S. airports. With access to better operational data sources, the scope of the MAGENTA calculation has expanded to include unscheduled freight, general aviation, and military traffic. The expanded scope of operations results in an increase in the number of people exposed to significant noise. This increase is not indicative of worsening noise trends, however. It is a function of better reporting.

The noise studies obtained from U.S. airports have gone through a thorough public review process, either under the National Environmental Policy Act requirements or as part of an airport noise compatibility program. The Integrated Noise Model, the core of the MAGENTA model, has been validated with actual acoustic measurements both at airports and in neighborhoods under the flight path of the aircraft. External forecast data are from primary sources. The MAGENTA population exposure methodology has been thoroughly reviewed by the ICAO task group and was most recently validated for a sample of airport-specific cases.

Aviation Fuel Efficiency

FAA measures aviation fuel consumption using the AEDT/SAGE computer model, which estimates aircraft fuel burn and emissions for variable-year emissions inventories and for operational, policy, and technology-related scenarios. The AEDT/SAGE system uses radar-based data from the ETMS and OAG schedule information to generate annual inventories of fuel burn and total distance flown data for all U.S. commercial operations.

Potential seasonal and year-to-year variability can be expected when analyzing air traffic data and commercial aircraft operations. The use of a 3-year moving average for reporting the fuel efficiency measure should address this variability.

Data used to measure performance against the target are assessed for quality control purposes. Input data for the AEDT/SAGE model are validated before proceeding with model runs. Radar data from the ETMS are assessed to remove any anomalies, checked for completeness, and preprocessed for input to the model. ETMS data are verified against the OAG information to avoid any duplication of flights in the annual inventory. Data from the AEDT/SAGE model are verified by comparing output from previous years and analyzing trends to ensure that they are consistent with expectations. In other cases monthly inventories may be analyzed to validate the results.

Full documentation of this target is determined when the annual inventories and the post-processing calculations have been completed, resulting in a percentage reduction in fuel efficiency relative to the baseline. The standard for this documentation is set by FAA and is separate from the DOT Volpe National Transportation Systems Center that is responsible for input and output

associated with the AEDT/SAGE model runs and annual inventories.

The measuring procedure used for this performance target is highly reliable. The processing of data through the AEDT/SAGE model, including the performance of algorithms, is not subject to random factors that could influence the results. However, the performance target is potentially influenced by factors outside the control of FAA. For example, a major sustained disruption or enhancement in air traffic and/or a significant shift in commercial operations among airlines, including changes in fleet composition and missions, could have a profound effect on the performance target.

International Leadership

Aviation Safety Leadership

Proof of the implementation of CAST safety enhancements will come from a variety of sources, including, but not limited to, e-mail from U.S. officials who have attended meetings with Chinese aviation officials; minutes of meetings with the Chinese Aviation Administration; and pronouncements by senior Chinese officials. Because China is a sovereign nation, FAA does not have the means to independently verify implementation of these initiatives throughout China. However, in the past, the Chinese have been very conscientious about commercial aviation safety. Home to the fastest growing commercial fleet in the world, China has nonetheless maintained an impressive accident rate.

There are no completeness data issues associated with this measure since it is a simple count of the projects completed. Again, FAA relies on the words and deeds of Chinese officials. Over time, verification will come when the accidents that the Chinese have do not display the precursors that the CAST safety enhancements are designed to prevent.

Bilateral Safety Agreements

FAA monitors this performance measure by tracking the execution of executive agreements and implementation procedures. Executive agreements are negotiated and maintained by the Department of State, and implementation procedures are negotiated and concluded by FAA. The official signed documents are maintained at FAA. This performance target is monitored monthly by tracking interim negotiation steps leading to completion of a BASA and tracking FAA internal coordination of the negotiated draft text.

The final signing of executive agreements is generally out of FAA's control. Many sovereign nations view these agreements as treaties that require legislative approval. FAA and the U.S. Government cannot control the timing of legislatures in other countries. Therefore, FAA will count executive agreements only when signed. The negotiation of implementation procedures is more within FAA's control.

The signed executive agreement constitutes evidence of completion. For implementation procedures, evidence will be some form of agreement between the parties that material negotiations are concluded, but a formal signing ceremony is still pending. Evidence of completion can take the form of a signed agreement stating that fact, e-mail, meeting minutes, or other mutual agreement between the two parties that the implementation procedures agreement has been concluded.

External Funding

Often countries that could benefit the most from FAA technical assistance are the least able to afford it. Therefore, FAA seeks to leverage the limited resources that it is able to contribute and provides program management for support from third party providers. FAA develops the funding proposals, puts forward recommendations to funding organizations, and works closely with these sources to finalize the funding for each project.

FAA tracks the progress of all funding proposals that it develops and supports. The funding secured from these proposals is the basis for measuring success. Public documents (press releases, letters, contracts, memorandums of agreement) are used to verify the amounts reported.

NextGen Technologies

FAA's ATO Operations Planning International Office manages and oversees international cooperation and is also actively involved in the global efforts of the JPDO on NextGen. As such, the ATO Operations Planning International Office monitors all activity related to NextGen supporting technologies, procedures, and concepts and determines which country or state cooperative activity will ultimately close out this performance target for FY 2007.

As the owner of this performance target, the ATO Operations Planning International Office collects all pertinent documentation related to its completion. The office also coordinates with other supporting FAA offices to cross-check and validate the reported results.

Organizational Excellence

Strategic Management of Human Capital

Employee Attitude Survey

FAA employees complete the EAS. FAA's Civil Aerospace Medical Institute analyzes EAS data, and FAA's Assistant Administrator for Human Resource Management coordinates the application of the results.

A confidence interval is calculated to assess how well the respondent sample result estimates the true population value. The reliability of the EAS metric is assessed by the standard coefficient alpha method. For even-numbered years, this metric is calculated based on a census survey, which gives an estimate of the true value within plus or minus 1%. In odd-numbered years, a stratified random sample is used and the estimate will be plus or minus 2.5% or better. FAA uses internal research and analyses of best practices, including a contract with the Corporate Leadership Council, to ensure the metric's appropriateness. Comparisons between EAS results and Government surveys such as the Federal Human Capital Survey provide converging data.

It has been determined that the FY 2007 EAS results were compromised, rendering them invalid. We are reviewing our controls surrounding the collection of these data, and in FY 2008 will consider appropriate modifications to the process.

Mission-Critical Positions

This measure tracks the length of time between the date an action to fill a position is submitted by an organization and the date FAA makes an offer to an applicant. FAA staffing specialists across the country enter data throughout the year into the Time-to-Fill website database. The database provides a secure record of the time needed to fill positions and allows optimal flexibility in managing and analyzing the stored information. FAA collects additional descriptive information that enables the agency to locate delays in the process steps and allows the examination of Time-to-Fill data by region, line of business, and hiring vehicle (i.e., via announcement or direct hire authority). Maintaining annual records allows performance to be compared year by year.

FAA has implemented several practices to ensure the integrity of data in the Time-to-Fill system. For example, monthly teleconferences provide a forum for discussions about efficiencies in hiring processes, resulting in more standardization and streamlined practices. In addition, monthly and quarterly monitoring of the Time-to-Fill mission-critical positions ensures more proactive management of hiring processes.

The Time-to-Fill system is a dynamic system, with hiring actions entered continually by field and headquarters staffing specialists. Because the system is constantly updated, monthly reports reflect the fill-time only for hiring actions entered before the report's cut-off date. The median fill time numbers are finalized and stabilized for the year-end status report.

Reduce Workplace Injuries

The data source for the number of workplace injury cases is the Department of Labor (DOL) SHARE Initiative website (**www.dol.gov/esa/owcp/share/**), which summarizes injuries and illnesses reported by the various agencies. The data source for the number of employees is the DOT Workforce

Demographics website (**http://dothr.ost.dot.gov/workforceinfo/index.htm**). The SHARE data reports are available quarterly, with an approximate 1-month lag time. FAA reports the case rates quarterly, with a 1-month lag time. Because of the lag in data availability, the most current data available are used to project the results to the end of the fiscal year. The most current data from both websites cover three quarters of the fiscal year.

Data quality is high because the computation follows a well-established formula from the DOL and the data sources for each variable in the formula are Federal department-level databases. The key source of possible inaccuracy is the data entry for the injury and illness reports. FAA has consolidated workers' compensation case management for headquarters, all nine regions, and both centers, further increasing data accuracy. In addition, some FAA safety professionals use the Safety Management Information System (SMIS) to cross-check mishap reports against workers' compensation claims to improve data accuracy.

Grievance Processing Time

FAA uses GETS for tracking and processing grievances. Data are entered and updated by authorized labor relations users in regions, centers, and headquarters.

Grievances are identified and tracked by a unique identifying number that is assigned by GETS only after critical information (e.g., submission date) is entered into the system. Similarly, to close a record requires the entry of a decision date. A monthly report is produced to verify completeness, accuracy, consistency, and timeliness of GETS data.

The GETS database has built-in control elements that must be populated before a record can be accepted into the database. Completed records are not deleted and can be used for multiple purposes. Both current records and completed records can be measured.

Air Traffic Controller Workforce Plan

Data on the total number of air traffic controllers on board are collected and compiled monthly by FAA's Office of Finance for the ATO. The staffing targets are also generated by the Financial Analysis and Process Re-engineering group within the ATO Office of Finance.

The source of the ATO staffing data is the Federal Personnel Payroll System Datamart. The staffing data are collected and compiled monthly. Completeness is guaranteed through validation of the reports generated from the Datamart. The reliability of these reports is ensured by (1) obtaining the staffing data from the same source each month; (2) resources in the Financial Metrics Team that produce reports when the data are available; and (3) a review of the staffing data to ensure that all controllers are coded correctly and show up in the controller staffing level. Data fields requiring corrections are directed to the appropriate ATO Vice President for action.

Improved Financial Performance

Cost Reimbursable Contracts

FAA's procurement management system, PRISM, is used to identify cost reimbursable-type contracts for which performance has ended. On a monthly basis, closed contracts are reported by either the contracting officer who closed out the contract(s) or the contractor tasked with closing out FAA contracts.

FAA's Contract Support Systems branch maintains a database of all closed contracts. In addition, closed contract files are received in the branch for distribution to central archives. There is a slight risk of underreporting the number of closed contracts if any are not reported and entered into the database. Only contracts that are closed out completely, with no outstanding issues, are entered into the database.

Cost Control

Each FAA organization proposes a cost saving, cost avoidance, and/or productivity improvement activity. This proposed cost control measure undergoes thorough management review to validate the viability of the proposal and associated computations. Once accepted, FAA organizations provide monthly updates on progress toward

achieving the stated goals and the organizations' activities, milestones, and dollars saved/avoided are verified. The individual organizations are responsible for maintaining files containing supporting documentation for their activity to ensure verification by audit. Risk of inaccurate reporting is minimal.

The data are subjected to a four-layer data verification process to ensure accuracy and reliability. First, the report information is checked against original templates submitted by FAA organizations. Second, the accuracy and reliability of the data are independently confirmed. Third, FAA management checks the information before it is submitted to FAA's CFO. Last, the CFO and senior financial management staff conduct a final data verification review prior to final approval of the cost control report.

Clean Audit With No Material Weaknesses

FAA chooses this measure because it is an independent assessment of FAA's internal control over financial reporting, FAA's compliance with relevant laws and regulations, and FAA's ability to fairly present the results of its financial position and activities during the year. The data used to evaluate FAA's performance against this target come from the independent auditors' report, issued as a result of their audit of FAA's annual financial statements, related footnotes, and required supplementary information. The auditors' report and the financial statements are published annually.

Acquisition Management

Critical Acquisitions on Budget/Critical Acquisitions on Schedule

FAA tracks and reports the status of all schedule and cost performance targets using an automated database, Simplified Program Information Reporting and Evaluation (SPIRE). Once the program is selected and approved for tracking purposes, a monthly report with detailed commentary is prepared. Each tracked program is assigned a green, yellow, or red confidence indicator to specify whether the cost is within the 10% threshold and whether it is on schedule. Associated comments detail problems, issues, and corrective actions and ensure milestones and costs are maintained within the established performance target. The performance status is reported through the SPIRE database and discussed with FAA's Administrator during the monthly FAA *Flight Plan* meetings.

Each DOT organization maintains its own quality control checks for cost, schedule, and technical performance data of each major systems acquisition in accordance with OMB Circulars A-11, A-109, and A-130, Federal Acquisition Regulations, and Departmental orders implementing those directives and regulations. The programs selected each fiscal year represent a cross section of programs within the ATO. They include programs that have an Exhibit 300 as well as "buy-by-the-pound" programs. The latter are typically not required to undergo a standard acquisition life cycle process. No bias influences the selection of milestones. The milestones selected represent the program office's determination of what effort they deem "critical" or important enough to warrant inclusion in the Acquisition Performance goal for the year. Typically there are two to four milestones. Interim milestones are also tracked but not included in the final performance calculation.

Customer Satisfaction and Operational Capability

Customer Satisfaction

To collect and report customer satisfaction data, FAA uses the ACSI survey. The ACSI combines survey input from U.S. commercial pilots to produce indices of satisfaction, and indices of the drivers and outcomes of satisfaction. ACSI is produced by the National Quality Research Center at the University of Michigan Business School and provides a recognized, independent source of customer satisfaction information. According to ACSI, differences of three points or more between companies/agencies or between two scores for the same company/agency are typically greater than could be caused by sampling error.

Information Security

Data on cyber security attacks are collected by FAA's CSIRC. As outlined in FAA Order 1370.82, the CSIRC is the focal point for information on all cyber incidents in FAA. The CSIRC and DOT's Transportation Cyber Incident Response Center (TCIRC) work collaboratively with other information systems security components in the Federal Government to validate cyber incidents on FAA and departmental systems. This process provides the most accurate and up-to-date measure. FAA and DOT use current and historical data to validate trends indicating an increase in the number and complexity of cyber attacks.

FAA has sensors on selected FAA administrative networks and on ATO's NAS and administrative networks. The FAA Office of Information Services is responsible for FAA incident reporting via its CSIRC, the primary focal point of incident reporting to the DOT and U.S. Computer Emergency Response Team.

ASSESSING PROGRAMS

Program Evaluation

A critical component of managing our performance is the periodic evaluation of FAA programs. Performance measures show if intended outcomes are occurring and assess any trends. Program evaluation uses analytic techniques to assess the extent to which our programs are contributing to those outcomes and trends.

Safer Skies Program

In 1997, the White House Commission on Aviation Safety and Security issued a challenge to FAA and the aviation industry—to reduce the air carrier fatal accident rate by 80% in 10 years. This challenge became known as the Safer Skies program, and its goal was to increase aviation safety in three main areas—Commercial Aviation, General Aviation, and Cabin Safety—through improved data and analysis as well as improved human factors in operations and maintenance.

The results of the Safer Skies outcome evaluation were as follows:

Commercial Aviation. In reviewing Commercial Air Carrier Fatal Accidents, the 10-year target called for an 80% reduction in the commercial air carrier fatal accident rate. Although we did not achieve the target set in 1998 when the program began, FAA has achieved a rate of 0.022 fatal accidents per 100,000 departures—a 57% drop. While we did not make this ambitious target, this is a significant reduction.

General Aviation Fatal Accidents. A review of the data from the 3 years prior to the development of Safer Skies (1994–1996) shows an average of 418 fatal general aviation accidents per year. From 2004 to 2006, the data indicate an average of 353 fatal general aviation accidents per year—approximately a 16% decrease.

Cabin Safety Commercial Fatalities. The 3 years prior to the development of Safer Skies (1994–1996) saw an average of 269 deaths per year, with 45 average deaths per fatal accident. A review of the FYs 2005–2007 fatality data indicates an average of 29 deaths per year, with 11 average deaths per fatal accident. This is a reduction of 89% and 76 % respectively.

The transformation of the aviation industry in both complexity and size has dramatically changed. This should also be reflected in how FAA conducts surveillance and measures progress. To date, "diagnostic surveillance"—looking at the causes of accidents after the fact—has been effective. However, this method of surveillance will result in an unacceptable level of fatal accidents as traffic doubles or triples by 2025. The results of the evaluation yielded two recommendations for FAA: modify the commercial fatal accident rate to address fatalities and develop a system safety approach.

The Aviation Safety organization developed a new Commercial Air Carrier Fatal Accident rate performance measure (fatalities per 100 million enplanements) and is in the process of developing a Safety Management System policy for FAA in FY 2008.

FINANCIAL STATEMENTS

With passenger totals expected to more than double in the next decade, FAA is determined to meet the increased demands on our airspace and ensure travelers get to their destination with minimal delays without compromising safety.
Credit: FAA Image Library

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

Ramesh K. Punwani
Assistant Administrator for Financial Services/Chief Financial Officer

The U.S. economy depends on a safe, efficient, and reliable national airspace system. NextGen is our roadmap for the future—and it is an extraordinary undertaking. Initial cost estimates to implement the plan through the year 2025 are as much as $22 billion. We recognize that to support this extraordinary effort, we need to operate more like a business using best practices from the private and public world. I am proud of our many achievements this year, particularly the significant strides we have made to strengthen financial controls and increase operational efficiencies. We know that every dollar saved enables us to commit more to increased safety and capacity. During FY 2007, we

- Achieved an unqualified opinion with one material weakness on our FY 2007 financial statements.
- Received our fifth consecutive award from the League of American Communication Professionals for the *FY 2006 Performance and Accountability Highlights*, recognizing it as one of the top Government annual reports in the country.
- Realized $150 million in annual recurring cost control savings from efforts initiated in FY 2005 and FY 2006. In addition, we introduced $82 million in efficiencies. To obtain these savings, we
  - Consolidated services such as human resources, IT, administration, and accounting.
  - Continued the SAVES initiative to improve our procurement program for administrative supplies, equipment, IT hardware, and courier services. We awarded seven contracts in five different categories and expect to achieve over $6 million in cost savings for FY 2007, with annualized savings of over $7 million each year thereafter.
  - Improved financial controls by strengthening the approval process for major investments and by requiring CFO-approval on all potential contracts over $10 million.

After 5 years of unqualified audit opinions, we received a qualified opinion on our FY 2006 financial statements related to the accuracy of our Construction in Progress (CIP) balance. We also received a related material weakness in FY 2006 for lack of supporting documentation and a need to strengthen policies and procedures in the capitalization process. We have been transparent in our public disclosure about the qualified opinion, material weakness, and the immediate remediation initiative we undertook to correct the deficiency. After an intensive, year-long effort to review and document the CIP balance, improve policies and procedures, and restate our FY 2006 financial statements, I am pleased to report that the auditors have issued a revised opinion—now unqualified—on our restated FY 2006 financial statements.

In addition, we received an unqualified opinion on our FY 2007 financial statements. However, we incurred a material weakness related to the timely processing of transactions and accounting of Property, Plant, and Equipment, including the CIP account. To address this weakness, we have restructured roles and responsibilities and reallocated resources to make additional improvements to our capitalization processes. The new organizational change will enable more accountability and transparency in the capitalization process and enable us to keep our CIP balance current and accurate.

Consistently achieving financial excellence is an ongoing challenge, but one which we take very seriously. Every day our dedicated staff work to improve the soundness of our policies and the efficiency of our processes to ensure the accuracy of our financial data. That is our commitment to every American taxpayer—and it is what continues to make FAA a world class organization.

Ramesh K. Punwani
Assistant Administrator for Financial Services/Chief Financial Officer
November 5, 2007

To meet the challenges of the wave of air traffic controller retirements and the increasing demand for air travel over the next decade, FAA is implementing a comprehensive strategy to hire and train more than 15,000 new air traffic controllers over the next 10 years.
Credit: FAA Image Library

Memorandum

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

Subject: ACTION: Quality Control Review of Audited Financial Statements for FY 2007 and FY 2006, Federal Aviation Administration
Report Number: QC-2008-005

Date: November 9,2007

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: JA-20

To: The Secretary
Acting Federal Aviation Administrator

The audit of the Federal Aviation Administration's (FAA) Financial Statements as of and for the years ended September 30, 2007, and September 30, 2006, was completed by KPMG LLP of Washington, D.C. (see Attachment). We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include the Chief Financial Officers Act, as amended; Generally Accepted Government Auditing Standards; and Office of Management and Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements."

In its fiscal year 2006 report, dated November 3, 2006, KPMG qualified its opinion because FAA was unable to provide sufficient evidence to support the accuracy and conlpleteness of the Construction in Progress[1] (CIP) account balance or related transactions that might have occurred affecting net cost. Because of the significance of the CIP balance and adjustments that might have resulted from management's review of CIP, FAA was unable to represent that the CIP account balance totaling $4.7 billion as of September 30, 2006, was fairly stated.

During fiscal year 2007, FAA executed an extensive corrective action plan, including a complete review of the CIP balance reported as of September 30,2006. FAA's review ofCIP resulted in a material restatement of its fiscal year 2006 financial statements, including the reclassification of $1.7 billion

1 Construction in Progress is a component of the Property, Plant, and Equipment line, and represents assets that are under construction or that have not yet been placed into service.

from CIP to in-use property and more than $900 million from CIP to expense. The restated CIP balance as of September 30, 2006, was, then, $2.1 billion.

KPMG concluded that FAA's consolidated financial statements presented fairly, in all material respects, the financial position of FAA as of September 30, 2007 and September 30, 2006, and its net costs, changes in net position, and budgetary resources, for the years then ended, in conformity with accounting principles generally accepted in the United States. However, as discussed in KPMG's.report, internal controls related to the timely processing of transactions and accounting for Property, Plant, and Equipment and CIP continues to be a material weakness. In addition, the report presented two significant deficiencies, and one instance of noncompliance with laws and regulations.

Material Weakness

1. Timely Processing of Transactions and Accounting for Property, Plant, and Equipment, including the Construction in Progress Account

Significant Deficiencies

1. Infonnation Technology Controls over FAA and Third-Party Systems and Applications
2. Management Oversight and Reporting of Inventory

Noncompliance with Laws and Regulations

1. *Federal Financial Management Improvement Act of* 1996 *(FFMIA)*

KPMG made 12 recommendations for corrective action; we agree with all and, therefore, are making no additional recommendations. FAA concurred with the material weakness, significant deficiencies, and noncompliance; agreed with the recommendations; and committed to implementing corrective action during fiscal year 2008. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the recommendations are subject to follow-up. In our opinion, the audit work performed by KPMG complied with applicable standards.

We appreciate the cooperation and assistance of FAA, Office of Financial Management, and KPMG representatives. If we can answer any questions, please call me at (202) 366-1959, or Rebecca C. Leng, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1496.

Attachment #

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the U.S. Department of Transportation Federal Aviation Administration (FAA) as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2007 audit, we also considered the FAA's internal controls over financial reporting and performance measures and tested the FAA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that the FAA's consolidated financial statements as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1A to the consolidated financial statements, the FAA changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007.

As discussed in Notes 1D and 14 to the consolidated financial statements, FAA changed its method of accounting for transfers between its trust and operations funds, affecting the presentation of balances on the combined statement of budgetary resources in fiscal year 2007.

As discussed in Note 18, to the consolidated financial statements, the FAA restated certain balances previously reported to correct an error in accounting for its construction in progress (a component of property, plant and equipment).

Our consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

A. Timely Processing of Transactions for Property, Plant, and Equipment, including the Construction in Progress Account
B. Information Technology Controls over FAA and Third-Party Systems and Applications
C. Management Oversight and Reporting of Inventory

We consider the first significant deficiency, above, to be a material weakness.

We noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The results of our tests of FFMIA disclosed instances, described in Exhibit III, where the FAA's financial management systems did not substantially comply with Federal accounting standards and the U.S. Government Standard General Ledger at the transaction level. The results of our tests of FFMIA disclosed no instances in which FAA's financial management systems did not substantially comply with Federal financial management information systems requirements.

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

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the Federal Aviation Administration as of September 30, 2007 and 2006, and the related consolidated statements of net cost, and changes in net position, and the combined statements of budgetary resources for the years then ended.

In our report dated November 3, 2006, we expressed an opinion on the FAA's fiscal year 2006 consolidated financial statements that was qualified for the effects of such adjustments, if any, as might have been determined to be necessary had management completed its review of the FAA's construction in progress (CIP) balance as of September 30, 2006, and related transactions affecting the FAA's net cost and net position that may have occurred during the year, and provided us with sufficient evidence necessary to complete our audit of CIP balances and related transactions. As discussed in note 18 the FAA has completed its review of CIP balances and related transactions, and as a result restated the fiscal year 2006 consolidated financial statements to correct an error in its accounting for CIP. The restatement relates to a material weakness in internal control over financial reporting affecting FAA's property, plant and equipment balances, described in Exhibit I of this report. Accordingly, our opinion on the consolidated financial statements, including the FAA's fiscal year 2006 restated consolidated financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the FAA as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1A to the consolidated financial statements, the FAA changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007.

As discussed in Notes 1D and 14 to the consolidated financial statements, FAA changed its method of accounting for transfers between its trust and operations funds, affecting the presentation of balances on the combined statement of budgetary resources in fiscal year 2007.

As discussed in Note 18, to the consolidated financial statements, the FAA restated certain balances previously reported to correct an error in accounting for its CIP.

As discussed in Notes 1 and 12, the accompanying consolidated financial statements reflect actual excise tax revenues deposited in the Airport and Airway Trust Fund through June 30, 2007 and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2007.

The information in the Management Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Performance Results Section is presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the FAA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the FAA's consolidated financial statements that is more than inconsequential will not be prevented or detected by the FAA's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the FAA's internal control.

In our fiscal year 2007 audit, we consider the deficiencies, described in Exhibits I and II, to be significant deficiencies in internal control over financial reporting. However, of the significant deficiencies described in Exhibits I and II, we believe that the significant deficiency presented in Exhibit I is a material weakness. Exhibit IV presents the status of prior year reportable conditions.

INTERNAL CONTROL OVER PERFORMANCE MEASURES

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

COMPLIANCE AND OTHER MATTERS

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

The results of our tests of FFMIA disclosed instances, described in Exhibit III, where the FAA's financial management systems did not substantially comply with Federal accounting standards and the U.S. Government Standard General Ledger at the transaction level. The results of our tests of FFMIA disclosed no instances in which FAA's financial management systems did not substantially comply with Federal financial management information systems requirements.

We noted certain additional matters that we have reported to management of the FAA in a separate letter.

* * * * *

RESPONSIBILITIES

Management's Responsibilities. The United States Code Title 31 Section 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, the FAA prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations, contracts, and grant agreements applicable to the FAA, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2007 and 2006 consolidated financial statements of the FAA based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FAA's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;

- Assessing the accounting principles used and significant estimates made by management; and

- Evaluating the overall consolidated financial statement presentation.

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

In planning and performing our fiscal year 2007 audit, we considered the FAA's internal control over financial reporting by obtaining an understanding of the FAA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the FAA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FAA's internal control over financial reporting.

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis and Performance sections, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin 07-04. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the FAA's fiscal year 2007 consolidated financial statements are free of material misstatement, we performed tests of the FAA's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the FAA. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 07-04 and FFMIA, we are required to report whether the FAA's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The FAA's responses to the findings identified in our audit are presented in Exhibits I, II, and III. We did not audit the FAA's response and, accordingly, we express no opinion on it.

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

KPMG LLP

November 5, 2007

MATERIAL WEAKNESS

A. Timely Processing of Transactions and Accounting for Property, Plant, and Equipment, including the Construction in Progress Account (Repeat/Update)

Background: The FAA constructs significant capital assets, such as radar, navigational, communications, and other technology equipment that is used to operate the United States National Airspace System. The FAA's Property, Plant and Equipment (PP&E) portfolio totals approximately $13.9 billion, including Construction in Progress (CIP) of approximately $2.8 billion. CIP consists of thousands of projects which range in size from a few thousand dollars to hundreds of millions of dollars. Most of the projects involve sophisticated technology that may take years to develop from concept to deployment. CIP is often deployed in multiple units and locations, causing FAA to allocate accumulated CIP to in-use assets as each asset is deployed in various locations. The allocation of cost to a single deployed asset can involve complex calculations of incurred and projected direct and indirect costs. The rapid advancement of technology and changes in FAA programs sometimes causes the FAA to abandon projects resulting in an expense of capitalized amounts before deployment.

In FY 2005, we reported that FAA had a material weakness in internal controls over the timely processing of PP&E transactions and related accounts. In FY 2006, FAA management was unable to assert to the accuracy and completeness of certain CIP and related balances at September 30, 2006. Consequently, we were unable to complete our audit procedures over those balances and related accounts. We also reported that FAA's material weakness in internal controls over its CIP balances and related accounts was uncorrected. In FY 2007, the FAA executed an extensive corrective action plan, involving a complete review of the CIP balance reported by FAA at September 30, 2006. Management's review of CIP resulted in a significant restatement of its 2006 and prior year consolidated financial statements including a reclassification of CIP to in-use assets of $1.7 billion and a charge to expense of more than $900 million, in addition to other corrections of FY 2006 PP&E related expenses.

Conditions: During fiscal year 2007, we noted that:

1. The FAA has not fully complied with standardized policies and procedures, including policies on unit costs, overhead burden calculations and allocation, and procedures for entry of transactions in the fixed asset subsidiary ledger, to ensure that CIP and related PP&E balances are accurate, complete and recorded timely throughout the year. Substantial manual procedures were necessary for FAA to account for and report CIP transactions that occurred during fiscal year 2007, and to determine the appropriate balances reported at year-end. For example, we noted:

    a. The FAA was focused on the cleanup of FY 2006 and prior year activity in the first two quarters of FY 2007. Therefore, the majority of the FY 2007 capitalization activity did not occur until the third and fourth quarters. Approximately 80% of additions and adjustments from CIP to PP&E were not recorded at the detailed transaction level, until after March 31, 2007;

    b. Documentation (i.e. Joint Acceptance Inspections, Contractor Acceptance Inspections, Deliverable Schedules, etc.) was not readily available from program offices and did not always adequately support management's conclusions. In some cases, we noted inconsistencies with management's conclusions and the documentation provided. This required management to re-evaluate their initial

disposition of CIP projects and in some cases, make adjustments to the general ledger and financial statements resulting from our audit.

c. A lack of formal communications and training for program managers, engineers, and operational accountants, who provide key inputs and source data needed to accurately and completely account for and present capitalized balances and related expenses. In some cases we noted that FAA employees were not always adhering to established policies and procedures adopted by the FAA.

d. A lack of adherence to polices and procedures by program offices to ensure the timely removal of fixed assets from the accounting system upon retirement. Through physical inspection and observation, we noted several instances where an asset no longer existed and was not removed from the fixed assets subsidiary ledger in a timely manner.

2. The FAA has not completed the design and full implementation of internal controls around the standardized policies and procedures that will allow management to provide reasonable assurance, as required by FMFIA and OMB Circular A-123, that internal controls over the CIP and related processes are properly designed and operating effectively.

3. The FAA processes and controls allowed errors to occur in the CIP capitalization and valuation process, such as unit costing, and calculations and allocation of overhead burden rates. The methodology adopted by FAA requires a high level of manual involvement to account for CIP consistent with FAA's new and updated capitalization policies.

4. The FAA has weaknesses in certain entity level controls particularly around the infrastructure of human resources needed to fully comply with current and planned policies and procedures, and properly account for PP&E and CIP in the future. The FAA placed heavy reliance on outside contractors to compute the restatement of its FY 2006 financial statements, to assist with the design and implementation of policies and procedures, and to record its FY 2007 CIP and PP&E transactions.

Cause/Effect: The conditions leading to the FY 2006 restatement and causing the material weakness have built-up over several years. Historically, communication has been weak between the FAA's accounting offices, the intermediary line of business finance staff or comptrollers, and program/project managers. Effective processes and monitoring controls are lacking over large-scale headquarters' (HQ) managed PP&E projects. Until recently programmatic and operating personnel did not always adhere to policies and procedures to enable the timely recording of PP&E placed in service. This created a challenge to record transfers from CIP to PP&E in a timely manner. In FY 2004, the FAA implemented a new accounting system. During the conversion, some CIP data was transferred at the summary level which made the identification of some assets in CIP more difficult, causing assets to remain in CIP long after they had been placed in service or abandoned, and required manual intervention to review and capitalize assets. The FAA experienced staff turnover in key positions of responsibility for PP&E accounting in recent years, especially at the HQ level, resulting in some loss of continuity and institutional knowledge. Accounting for FAA CIP is very complex, with many variables and inputs that affect the capitalized value, including estimates, indirect costs, projection of future spend rates, timing and number of asset deployments.

If FAA is unable to correct these conditions early in FY 2008, the CIP, PP&E and related financial statement balances may not be fairly stated throughout, or at the end of FY 2008, and in future years.

Criteria: Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, requires that:

- Constructed PP&E be recorded as CIP until the asset is placed in service, at which time it is to be transferred to general PP&E, and depreciation expense should be taken over the estimated useful life of the asset;
- PP&E is recorded at historical cost with an adjustment recorded for depreciation. In the absence of such information, estimates may be used based on a comparison of similar assets with known values or inflation-adjusted current costs; and
- PP&E accounts be adjusted for disposals, retirements and removal of PP&E, including associated depreciation.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely and reliable financial and other reports. Documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

Section 803(a) of the *Federal Financial Management Improvement Act (FFMIA) of 1996* requires that each Agency implement and maintain a system that complies substantially with Federal financial management system requirements as stipulated in OMB Circular A-127, *Financial Management Systems*. This Circular requires an Agency's system design to have certain characteristics, including consistent internal controls over data entry, transaction processing, and reporting throughout the system to ensure the validity of the information.

GAO's *Standards for Internal Control in the Federal Government* (GAO's *Standards*) states that internal controls should generally be designed to assure that on-going monitoring occurs in the course of normal operations. Management is responsible for developing control activities, which are the policies, procedures, techniques, and mechanisms that enforce management's directives and help ensure that actions address risks. The activities include reviews by management at the functional or activity level; proper execution of transactions and events; accurate and timely recording of transactions and events; and appropriate documentation of transactions and internal control.

Recommendations: Accounting for CIP will require a commitment of resources, detailed policies and procedures, and clear communications with programmatic personnel for key inputs. FAA senior management personnel have developed a plan to actively monitor PP&E, including CIP activity. However, the new process will not be implemented until early FY 2008. As FAA implements its revised policies and procedures and trains personnel, we recommend that the FAA:

1. Fully comply with the existing standardized policies and procedures, including policies on unit costs, overhead burden calculations and allocation, and procedures for timely entry of transactions in the fixed asset subsidiary ledger, to ensure that CIP and related PP&E balances are accurate, complete and performed timely throughout the year. Perform a

detailed review over all base and pool projects to ensure burden allocations are complete and accurate.

2. Complete the design and full implementation of internal controls around the existing and planned standardized policies and procedures, as well as clearly define the roles and responsibilities necessary to set-up and then manage financial reporting and capitalization operations in the ABA, ATO, and ARC organizations, as required by FMFIA and OMB Circular A-123.
3. Ensure that supporting documentation for capitalization of PP&E, including CIP, is properly managed, maintained and available for examination upon request. Management should consider the need for enhancing or re-evaluating current on-line documentation management system tools, as well as, on-demand access to financial data for the AFM organization for ad hoc reporting to support audit requirements and to support AFM in managing the CIP account.
4. Implement a scorecard with metrics to track compliance with capitalization policies and procedures and to ensure that assets are being capitalized timely. Implement a capability to track the estimated date placed in service by asset to facilitate CIP management, forecast deployment of assets, and improve the quality of the year end assertion/accrual process.
5. Continue training and strengthening communication between the field, regions, and the operating accounting offices to ensure that they follow newly implemented guidance resulting from the Corrective Action Plan over PP&E, including CIP.
6. Consider improving the functionality of its IT systems, especially fixed assets project module, to automate transactions wherever possible, and reduce the extent of manual intervention to record routine transactions involving CIP and PP&E.
7. Consider performing a human capital needs assessment for ABA, ARC and ATO, with particular focus on the Property Control and Analysis Division (AFM-500). The assessment should identify the additional managerial skill sets (e.g., financial accounting background, knowledge, and expertise) required to both establish and strengthen the financial accounting and reporting infrastructure throughout the FAA, and, once established, to effectively manage the processes, gradually correct control weakness, and produce reliable and timely financial statements throughout the year.

FAA's Response: The FAA has reviewed the material weakness related to PP&E, including CIP, and agrees with KPMG's recommendations. We are already well underway with implementing improvements to the capitalization process, including committing the necessary additional resources, implementing clearly defined policies and procedures, and improving communications to resolve this material weakness. As we continue to implement these corrective actions in early FY 2008, we will put into practice KPMG's additional recommendations to ensure that the corrective actions are fully effective and sufficiently comprehensive.

SIGNIFICANT DEFICIENCIES

B. Information Technology Controls over FAA and Third-Party Systems and Applications

Background: The FAA relies on extensive information technology to administer internal controls over the performance of financial management related activities and the preparation of financial statements. Information Technology (IT) systems are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors. Key FAA applications and general support systems that were evaluated in this fiscal year's audit include:

- PRISM, the FAA's procurement system;
- System of Accounting and Reporting (SOAR), one of the FAA's grants management systems;
- Cost Accounting System (CAS);
- CASTLE, the DOT's timekeeping systems;
- Delphi, the DOT core accounting system used by the FAA; and
- Delphi interface to the Electronic Clearing House Operations system (ECHO) owned and managed by the Federal Transit Administration (FTA).

Conditions: During our FY 2007 audit, we noted that FAA has made progress in improving various aspects of IT internal control weaknesses reported in FY 2006 related to information security management. Specifically, FAA has implemented agency-wide security awareness training policies and procedures; improved change management controls over the SOAR and CASTLE systems; certified and accredited the CASTLE system including establishing user account recertification process; addressed contingency plan weaknesses noted for PRISM; performed contingency plan testing over the CAS system; and improved physical security controls for the CAS data center.

However, we noted significant issues still exist from FY 2006 related to system security configurations and patch management of general support systems supporting applications reviewed, user account and password management practices including control over privileged administrator accounts, change management, contingency planning, implementation of financial system improvements for FAA accounting operations, and personnel security management practices. In some instances, we noted corrective actions were taken late in FY 2007 for control weaknesses previously reported, and therefore, the control weaknesses still existed for the majority of the period under audit. Additionally, we noted other significant issues related to data center security control weaknesses, database management security configuration weaknesses, and user account/password management weaknesses. Collectively, our considerations of these control deficiencies resulted in reporting general controls as a significant deficiency over FAA financial management systems.

We have provided the following summary of weaknesses identified for systems reviewed in connection with the FY 2007 audit of the consolidated financial statements, along with a general discussion of weaknesses noted. A separate *Limited Distribution Management Report* will be provided to management describing in detail, the specific deficiencies identified and recommendations to correct these deficiencies.

1. Delphi - One critical control objective – Logical Access – were not suitably designed and not operating effectively. Additionally, long-standing priority FAA change requests to the Delphi application considered critical to FAA financial management operations were

not implemented until July 2007 for improving accuracy of accounting transaction entries and ability to review and reconcile accounting processing errors.

2. FAA Specific Feeder System Applications:
   - CAS change management weaknesses not fully mitigated.
   - Instances in which the CAS, CASTLE, PRISM, and SOAR application server operating and database management systems were not configured in the most secure manner available, resulting in potential vulnerabilities to improper access, use, loss, or modification.
   - Instances of inadequate user account and password administration of CAS, CASTLE, PRISM, and SOAR application server operating and database management systems where user accounts and password settings are not aligned with FAA policies, expired accounts, expired passwords, default passwords, and inactive administrator accounts existed.
   - Inconsistent or inadequate procedures to ensure the timely removal of user access upon separation or termination of FAA contractors and employees.
   - Poor physical controls related to the SOAR application.
   - Contingency plan has not been tested and appropriately communicated to necessary employees related to the SOAR application.

Cause/Effect: Prior year corrective action plans were not fully implemented. Further, we noted a lack of resources available to properly control and administer FAA specific feeder system applications. These deficiencies could adversely affect the FAA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the FAA consolidated financial statements.

Criteria: Controls over IT and related financial systems are essential elements of financial reporting integrity. Effective general controls in an IT and financial systems environment are typically defined in six key control areas: entity-wide security program planning and management; access control; application software development and change control; system software; segregation of duties; and service continuity. In addition to reliable controls, Federal financial management system functionality is important to program monitoring, increasing accountability of financial and program managers, providing better information for decision-making, and increasing the efficiency and effectiveness of services provided by the Federal government.

OMB Circular No. A-130, *Management of Federal Information Resources*, Appendix III, requires Federal agencies to establish adequate security controls for information collected, processed, transmitted, stored, or disseminated in general support and application systems commensurate with the risk and magnitude of harm resulting from the loss, misuse, or unauthorized access to or modification of information.

National Institute of Standards and Technology Special Publication Number 800-53, *Recommended Security Controls for Federal Information Systems*, addresses minimum security control requirements that Federal agencies should implement in their general support and application systems that are consistent with the control issues addressed in this report.

Recommendations: We recommend that the FAA improve the information technology environment applicable to the applications reviewed by implementing the specific recommendations provided in the aforementioned separate *Limited Distribution Management Report.*

FAA's Response: The FAA has reviewed the significant deficiency related to information technology controls over the FAA and third-party systems applications and agrees with KPMG's recommendations. The FAA, through the Chief Information Officer, is committed to maintaining system security and thus will implement KPMG's recommendations in fiscal year 2008. We will work with third parties that operate systems for the FAA to ensure that the third party complies with KPMG's recommendations. We will also work with DOT toward accomplishing these goals for DOT sponsored systems.

C. Management Oversight and Reporting of Inventory

Background: The FAA maintains certain inventory to support the operation of its capital assets that are part of the National Airspace System.

Conditions: We noted:

1. Some inventory accounts were not classified in accordance with Federal accounting standards.
2. Some inventory accounts were included in both the inventory accounts and a property general ledger account, and therefore were double-counted in the FAA's accounting system. We noted that the inventory balance was misstated for the first three quarters of FY 2007, as management did not complete their analysis and implement their corrective action until the fourth quarter.
3. Some methods of calculating inventory allowances were inconsistent and lacked sufficient and supported rationales.

Cause/Effect: Responsibilities for management and reporting of the FAA's inventory accounts are not clearly defined and documented. The FAA also has not implemented sufficient controls, such as periodic reviews, to ensure the valuation and classification of inventory balances throughout the year, which could result in a misstatement of FAA's financial statements.

Criteria: SFFAS No. 3, *Accounting for Inventory and Related Property,* states "inventory shall be categorized as (1) inventory held for sale, (2) inventory held in reserve for future sale, (3) excess, obsolete and unserviceable inventory, or (4) inventory held for repair." SFFAS 3 further states "operating materials and supplies consist of tangible personal property to be consumed in normal operations and excluded are (1) goods that have been acquired for use in constructing real property or in assembling equipment to be used by the entity, (2) stockpile materials, (3) goods held under price stabilization programs, (4) foreclosed property, (5) seized and forfeited property, and (6) inventory."

GAO's *Standards* states that controls should be designed to assure that ongoing monitoring occurs in the course of normal operations. Further, internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily

available for examination. Further, all documentation and records should be properly managed and maintained

Recommendations: We recommend that the FAA:

1. Assign ownership responsibility to the appropriate organization within the FAA to ensure inventory is fairly stated on a going forward basis;
2. Perform periodic reviews to ensure the accuracy of inventory accounts in terms of valuation, and classification; and
3. Develop policies and procedures to ensure new inventory items are not double-counted between inventory and the property general ledger.

FAA's Response: The FAA has reviewed the significant deficiency related to management oversight and reporting of inventory and agrees with KPMG's recommendations. We have already completed several of KPMG's recommendations and are currently implementing procedures to regularly review the inventory accounts for proper valuation and classification. Once these procedures are implemented and operating effectively, targeted for early FY 2008, we will have resolved this significant deficiency.

COMPLIANCE AND OTHER MATTERS

D. *Federal Financial Management Improvement Act of 1996 (FFMIA)*

Background/Criteria: FFMIA requires that an agency's financial management systems substantially comply with Federal financial management systems requirements, accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB), and use of the U.S. Government Standard General Ledger (USSGL) at the transaction level.

Condition: The FAA was not in substantial compliance with FFMIA because:

1. Management was unable to account for transactions and present balances in its periodic financial statements in accordance with applicable accounting standards, as of and for the year ended, September 30, 2007.
2. FAA's core financial accounting system, Delphi, does not allow for recoveries of prior year obligations to be recorded using the U.S. Government Standard General Ledger at the transaction level.

Effect: The conditions cited here could adversely affect the financial results and financial operations of the FAA.

Recommendations: We recommend that the FAA address and resolve the weaknesses noted above, and fully comply with FFMIA in fiscal year 2008.

FAA's Response: The FAA has reviewed KPMG's assessment of FAA's compliance with FFMIA and agrees with KPMG's recommendations. The FAA recognizes the importance of complying with Federal financial management systems requirements, accounting standards issued by the FASAB, and the use of the USSGL at the transaction level. During FY 2007, we conducted a comprehensive review and analysis of our CIP balances and restated our FY 2006 financial statements accordingly. Also during FY 2007, we began implementation of a phased-approach solution that will allow accounting for prior year recoveries at the transaction level. We will complete implementation in FY 2008.

STATUS OF PRIOR YEAR REPORTABLE CONDITIONS, AND NON-COMPLIANCE WITH SIGNIFICANT LAWS AND REGULATIONS

Prior Year Condition	As Reported At September 30, 2006	Status As Of September 30, 2007
Timely Processing and Accounting for the Construction in Progress (CIP) Account	**Material weakness:** There were certain internal control weaknesses related to the timeliness of transaction processing and accounting for CIP and management was unable to represent the CIP balance and the effect of any adjustment, if necessary, to the FAA's net cost and net position are properly recorded.	**Continue as a material weakness:** Although the FAA was successful in establishing a fairly stated account balance, weaknesses still remain in the timely recording of property, plant, and equipment, including CIP transactions.
Monitoring of Grants	**Reportable condition:** Policies were developed to correct this matter. However, these policies were not implemented during fiscal year 2006.	**No longer a reportable condition:** The FAA implemented sufficient controls to correct this matter.
Information technology controls over FAA and third-party systems and applications	**Reportable condition:** Certain general controls related to the FAA's primary financial applications owned by the FAA and the DOT need to be strengthened.	**Continue as a significant deficiency:** Although improvements were made, weaknesses still remain in controls over FAA and third-party systems and applications.
Non-compliance with the *Federal Financial Management Improvement Act*	**Instance of non-compliance:** The FAA's financial systems did not substantially comply with Federal financial management information systems requirements, and did not use the U.S. Government Standard General Ledger at the transaction level.	**Continue reporting as an instance of non-compliance:** We noted that instances still exist in which FAA's systems do not substantially comply with applicable Federal accounting standards and matters involving the use of the U.S. Government Standard General Ledger at the transaction level.
Non-compliance with the *Anti-Deficiency Act*	**Instance of non-compliance:** The FAA committed a violation of the *Anti-Deficiency Act* related to transactions associated with the Small Community Air Service Development Program and had not provided documentation to satisfy the	**No longer considered an instance of non-compliance:** Management satisfied the reporting requirements to correct this matter.

Prior Year Condition	As Reported At September 30, 2006	Status As Of September 30, 2007
	reporting requirements of known violations under the *Anti-Deficiency Act*.	

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

Assets	2007	2006 as Restated
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 3,895,095	$ 3,494,227
Investments (Note 3)	8,904,357	8,674,729
Accounts receivable, prepayments, and other (Note 4)	374,209	172,207
Total intragovernmental	13,173,661	12,341,163
Accounts receivable, prepayments, and other, net (Note 4)	108,347	122,220
Inventory, operating materials, and supplies, net (Note 5)	507,527	628,110
Property, plant, and equipment, net (Notes 1.X,6,9,18)	13,891,770	13,677,986
Total assets	$ 27,681,305	$ 26,769,479
Liabilities		
Intragovernmental liabilities		
Accounts payable	$ 20,379	$ 49,911
Employee related and other (Note 8)	332,249	293,556
Total intragovernmental liabilities	352,628	343,467
Accounts payable	387,036	223,359
Grants payable	653,790	549,758
Environmental (Note 7)	566,886	573,264
Employee related and other (Notes 8, 9 & 16)	911,410	965,806
Federal employee benefits (Note 10)	883,982	888,082
Total liabilities	3,755,732	3,543,736
Commitments and contingencies (Notes 9 & 16)		
Net position		
Unexpended appropriations- earmarked funds (Note 12)	1,097,039	426,474
Unexpended appropriations- other funds	2,877	2,877
Subtotal unexpended appropriations	1,099,916	429,351
Cumulative results of operations- earmarked funds (Note 12)	11,647,347	12,775,897
Cumulative results of operations- other funds (Notes 1.X & 18)	11,178,310	10,020,495
Subtotal cumulative results of operations	22,825,657	22,796,392
Total net position	23,925,573	23,225,743
Total liabilities and net position	$ 27,681,305	$ 26,769,479

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

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

Line of business programs (Notes 1.X, 11 & 18)	2007	2006 as Restated
Air Traffic Organization		
Expenses	$ 9,825,077	$ 9,497,848
Less earned revenues	(144,601)	(200,409)
Net costs	9,680,476	9,297,439
Aviation Safety		
Expenses	1,018,315	948,495
Less earned revenues	(5,566)	(5,253)
Net costs	1,012,749	943,242
Airports		
Expenses	3,923,719	3,852,141
Less earned revenues	(114)	(239)
Net costs	3,923,605	3,851,902
Commercial Space Transportation		
Expenses	10,768	15,249
Net costs	10,768	15,249
Non line of business programs		
Regions and center operations and other programs		
Expenses	604,529	617,589
Less earned revenues	(417,673)	(590,004)
Net costs	186,856	27,585
Net cost of operations		
Total expenses	15,382,408	14,931,322
Less earned revenues	(567,954)	(795,905)
Total net cost	**$ 14,814,454**	**$ 14,135,417**

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

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
UNEXPENDED APPROPRIATIONS
For the Years Ended September 30
(Dollars in Thousands)

	2007 **Earmarked** Unexpended appropriations	2007 **Other funds** Unexpended appropriations	2007 **Totals** Unexpended appropriations	2006 **Earmarked** Unexpended appropriations	2006 **Other funds** Unexpended appropriations	2006 **Totals** Unexpended appropriations
Beginning balances	$ 426,474	$ 2,877	$ 429,351	$ 1,266,017	$ 2,877	$ 1,268,894
Budgetary financing sources						
Appropriations received (Note 14)	2,746,317	-	2,746,317	2,645,000	-	2,645,000
Appropriations transferred-in/out	621	-	621	19,000	-	19,000
Rescissions, cancellations, and other	(65,511)	-	(65,511)	(57,318)	-	(57,318)
Appropriations used	(2,010,862)	-	(2,010,862)	(3,446,225)	-	(3,446,225)
Total financing sources	670,565	-	670,565	(839,543)	-	(839,543)
Ending balances	$ 1,097,039	$ 2,877	$ 1,099,916	$ 426,474	$ 2,877	$ 429,351

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

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
CUMULATIVE RESULTS OF OPERATIONS
For the Years Ended September 30
(Dollars in Thousands)

	2007 **Earmarked** Cumulative results of operations	2007 **Other funds** Cumulative results of operations	2007 **Totals** Cumulative results of operations	2006 **Earmarked** Cumulative results of operations	2006 as Restated **Other funds** Cumulative results of operations	2006 as Restated **Totals** Cumulative results of operations
Beginning balances	$ 12,775,897	$ 10,020,495	$ 22,796,392	$ 12,366,274	$ 11,322,308	$ 23,688,582
Prior period adjustments (Notes 1.X & 18)	-	-	-	-	(1,271,843)	(1,271,843)
Beginning balance after restatement	12,775,897	10,020,495	22,796,392	12,366,274	10,050,465	22,416,739
Budgetary financing sources						
Appropriations used	2,010,862	-	2,010,862	3,446,225	-	3,446,225
Non-exchange revenue—excise taxes and other (Note 12)	12,372,397	1,170	12,373,567	10,701,709	-	10,701,709
Transfers-in/out without reimbursement	(132,708)	58,062	(74,646)	(107,212)	-	(107,212)
Other financing sources						
Transfers-in/out without reimbursement	(2,447,251)	2,447,463	212	(1,032,131)	1,011,625	(20,506)
Imputed financing from costs absorbed by others (Note 13)	474,119	59,605	533,724	431,280	63,574	494,854
Total financing sources	12,277,419	2,566,300	14,843,719	13,439,871	1,075,199	14,515,070
Net cost of operations (Notes 1.X & 18)	13,405,969	1,408,485	14,814,454	13,030,248	1,105,169	14,135,417
Net change	(1,128,550)	1,157,815	29,265	409,623	(29,970)	379,653
Ending balances	$ 11,647,347	$ 11,178,310	$ 22,825,657	$ 12,775,897	$ 10,020,495	$ 22,796,392

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

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30
(Dollars in Thousands)

Budgetary resources (Note 14)	**2007**	**2006**
Unobligated balance brought forward, transfers and other	$ 2,305,222	$ 2,358,825
Recoveries of prior year obligations	291,059	371,319
Budget authority	19,725,794	18,459,775
Spending authority from offsetting collections	6,502,604	1,222,097
Nonexpenditure transfers, net	(46,331)	(22,216)
Temporarily not available pursuant to public law	-	(82,190)
Permanently not available	(5,058,781)	(4,521,512)
Total budgetary resources	$ 23,719,567	$ 17,786,098
Status of budgetary resources		
Obligations incurred	$ 20,965,899	$ 15,480,876
Unobligated balance available	1,347,769	1,209,311
Unobligated balance not available	1,405,899	1,095,911
Total status of budgetary resources	$ 23,719,567	$ 17,786,098
Change in obligated balance		
Obligated balance, net, beginning of period	$ 8,494,510	$ 8,795,904
Obligations incurred	20,965,899	15,480,876
Gross outlays	(20,817,520)	(15,420,860)
Recoveries of prior years unpaid obligations, actual	(291,059)	(371,319)
Change in uncollected customer payments from Federal sources	161,365	9,909
Obligated balance, net, end of period	$ 8,513,195	$ 8,494,510
Unpaid obligations	$ 9,008,582	$ 9,151,262
Uncollected customer payments from Federal sources	(495,387)	(656,752)
Obligated balance, net, end of period	$ 8,513,195	$ 8,494,510
Outlays		
Gross outlays	$ 20,817,520	$ 15,420,860
Collections, net of offsetting receipts	(6,663,969)	(1,232,005)
Distributed offsetting receipts	(103)	-
Net outlays	$ 14,153,448	$ 14,188,855

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources of the Federal Aviation Administration (FAA). The statements are a requirement of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. They have been prepared from, and are fully supported by, the books and records of FAA in accordance with (1) the hierarchy of accounting principles generally accepted in the United States of America and standards approved by the principals of the Federal Accounting Standards Advisory Board, (2) Office of Management and Budget (OMB) Circular Number A-136, Financial Reporting Requirements, and (3) Department of Transportation (DOT) and FAA accounting policies, which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control FAA's use of budgetary resources. The statements are subjected to audit, as required by OMB Bulletin Number 07-04, *Audit Requirements for Federal Financial Statements*.

Effective FY 2007, the Statement of Financing was removed as a principal financial statement. Federal agencies are now required to disclose the reconciliation of net cost of operations to budgetary accounts in a footnote to the financial statements in accordance with OMB Circular Number A-136. The new footnote is number 17 titled "Reconciliation of Net Cost to Budget."

Notes 4 and 8 include the necessary information to present "other assets" and "other liabilities" as defined by OMB Circular Number A-136. This presentation is used to support the preparation of the consolidated financial statements of the U.S. Government.

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

B. Reporting Entity

FAA, which was created in 1958, is a component of the DOT, a cabinet-level agency of the Executive Branch of the United States Government. FAA's mission is to provide a safe, secure, and efficient global aerospace system that contributes to national security and the promotion of United States aerospace safety. As the leading authority in the international aerospace community, FAA is responsive to the dynamic nature of customer needs, economic conditions, and environmental concerns. The FAA reporting entity is comprised of the following major funds:

- Airport and Airway Trust Fund (AATF). The AATF is funded by excise taxes that the Internal Revenue Service (IRS) collects from airway system users. These receipts are unavailable until appropriated by the U.S. Congress. Once appropriated for use, FAA transfers AATF receipts necessary to meet cash disbursement needs to several other funds, from which expenditures are made. The AATF fully finances the following additional FAA funds:
  - Grants-in-Aid to Airports—AATF. As authorized, grants are awarded with Grants-in-Aid to Airports funding and used for planning and development to maintain a safe and efficient nationwide system of public airports. These grants fund approximately one-third of all capital development at the nation's public airports, and are administered through the Airport Improvement Program.
  - Facilities and Equipment—AATF. The Facilities and Equipment funds are FAA's principal means of modernizing and improving air traffic control and airway facilities. These funds also finance major capital improvements required by other FAA programs as well as other improvements to enhance the safety and capacity of the national airspace system.

- Research, Engineering and Development—AATF. Research, Engineering, and Development funds finance long-term research programs to improve the air traffic control system.

- Operations General Fund and Operations—AATF. Operations finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It also finances the salaries and costs associated with carrying out FAA's safety and inspection and regulatory responsibilities. Operations—AATF is financed through transfers from the Airport and Airway Trust Fund. For administrative ease in obligating and expending for operational activities, those funds are in turn transferred to the Operations General Fund, which is supplemented by appropriations from the U.S. Treasury. Expenditures for operational activities, whether originally funded by the AATF or the General Fund of the U.S. Treasury, are generally made from the Operations General Fund.

- Aviation Insurance Revolving Fund. Revolving funds are accounts established by law to finance a continuing cycle of operations with receipts derived from such operations usually available in their entirety for use by the fund without further action by the U.S. Congress. The Aviation Insurance Revolving Fund provides products that address the insurance needs of the U.S. domestic airline industry not adequately met by the commercial insurance market. FAA is currently providing war risk hull loss and passenger, crew, and third-party liability insurance through December 31, 2007, as required by the Homeland Security Act of 2002 as amended by the Revised Continuing Appropriations Resolution, 2007, P.L. 110-5.

- Administrative Services Franchise Fund (Franchise Fund). The Franchise Fund is a revolving fund designed to create competition within the public sector in the performance of a wide variety of support services.

- Other Funds. The consolidated financial statements include other funds such as (a) Aviation Overflight User Fees, which is a special fund in which receipts are earmarked by law for a specific purpose; (b) Facilities, Engineering & Development General Fund; and (c) General Fund Miscellaneous Receipts accounts established for receipts of non-recurring activity, such as fines, penalties, fees, and other miscellaneous receipts for services and benefits.

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

C. Budgets and Budgetary Accounting

Congress annually enacts appropriations to permit FAA to incur obligations for specified purposes. In FY 2007 and 2006, FAA was accountable for amounts made available in appropriations laws from the AATF, Revolving Funds, a Special Fund, and General Fund appropriations. FAA recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through Department of Treasury General Fund warrants and transfers from the AATF.

D. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis, in accordance with OMB Circular A-136.

FAA changed its method of accounting for transfers between the AATF and FAA general fund component on the combined statement of budgetary resources in FY 2007 to adopt the requirements provided in FY 2007 by the Office of Management and Budget, No. A-136,

Financial Reporting Requirements. Details of this accounting change are described in note 14.

Intragovernmental transactions and balances result from exchange transactions made between FAA and another Federal government reporting entity, while those classified as "with the public" result from exchange transactions between FAA and non-Federal entities. For example, if FAA purchases goods or services from the public and sells them to another Federal entity, the costs would be classified as "with the public," but the related revenues would be classified as "intragovernmental." This could occur, for example, when FAA provides goods or services to another Federal government entity on a reimbursable basis. The purpose of this classification is to enable the Federal government to prepare consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

E. Revenues and Other Financing Sources

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating, capital, and grant expenditures. Additional amounts are obtained from service fees (e.g., landing, registry, and overflight fees), war risk insurance premiums (see note 16), and through reimbursements for products and services provided to domestic and foreign governmental entities.

The AATF is sustained by excise taxes that the Internal Revenue Service (IRS) collects from airway system users. Excise taxes collected are initially deposited to the General Fund of the U.S. Treasury. The IRS does not receive sufficient information at the time the taxes are collected to determine how these payments should be distributed to specific earmarked funds. Therefore, the U.S. Treasury makes initial semi-monthly distributions to earmarked funds based on estimates prepared by its Office of Tax Analysis (OTA). These estimates are based on historical excise tax data applied to current excise tax receipts. FAA's September 30, 2007, financial statements reflect excise taxes certified by IRS through June 30, 2007, and excise taxes estimated by OTA for the period July 1 to September 30, 2007, as specified by SFFAS Number 7, *Accounting for Revenue and Other Financing Sources*. Actual tax collections data for the quarter ended September 30, 2007, will not be available from the IRS until December 2007. When actual amounts are available from the IRS, generally 3 months after each quarter-end, adjustments are made to the estimated amounts and the difference is accrued as an intragovernmental receivable or payable. FAA management does not believe that the actual tax collections for the quarter ended September 30, 2007, will be materially different from the OTA estimate based on historical results.

The AATF also earns interest from investments in U.S. Government securities. Interest income is recognized as revenue on the accrual basis of such collections for those quarters.

Appropriations are recognized as a financing source when expended. Revenues from services provided by FAA associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services. War-risk insurance premiums are recognized as revenue on a straight-line basis over the period of coverage. Aviation overflight user fees are recognized as revenue in the period in which the flights took place.

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

F. Taxes

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

G. Fund Balance with the U.S. Treasury

The U.S. Treasury processes cash receipts and disbursements. Funds held at the Treasury are available to pay agency liabilities. FAA does not

maintain cash in commercial bank accounts or foreign currency balances. Foreign currency payments are made either by Treasury or the Department of State and are reported by FAA in the U.S. dollar equivalent.

H. Investment in U.S. Government Securities

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

I. Accounts Receivable

Accounts receivable consists of amounts owed to FAA by other Federal agencies and the public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include, for example, overflight fees, fines and penalties, reimbursements from employees, and services performed for foreign governments. These amounts due from the public are presented net of an allowance for loss on uncollectible accounts based on historical collection experience or an analysis of the individual receivables.

FAA reports deposits in transit when the U.S. Treasury has not yet recognized FAA's collections received from the public or other Federal entities.

J. Inventory

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

FAA field locations trade non-operational repairable components with the Franchise Fund. These components are classified as "held for repair." An allowance is established for repairable inventory based on the average historical cost of such repairs. The cost of repair is capitalized and these items are reclassified as "held for sale."

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

K. Operating Materials and Supplies

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

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

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

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

FAA capitalizes acquisitions of PP&E when the cost equals or exceeds $25 thousand and the useful life equals or exceeds 2 years. FAA records PP&E at original acquisition cost. However, where applicable, FAA allocates an average cost of like assets within a program, commonly referred to as unit costing. The FAA purchases some capital assets in large quantities, which are known as "bulk purchases." If the cost per unit is below the capitalization threshold of the FAA, then these items are expensed.

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

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

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

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

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

FAA occupies certain real property that is leased by the DOT from the General Services Administration. Payments made by the FAA are based on the fair market value for similar rental properties.

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

M. Prepaid Charges

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

N. Liabilities

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

O. Accounts Payable

Accounts payable are amounts 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 FAA in support of the NAS, and estimated amounts incurred but not yet claimed by Airport Improvement Program grant recipients.

P. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. For each bi-weekly pay period, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Liabilities associated with other types of vested leave, including compensatory, credit hours, restored

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

Q. Accrued Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because FAA will reimburse the Department of Labor (DOL) 2 years after the actual payment of expenses by the DOL. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

R. Retirement Plan

FAA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in CSRS are beneficiaries of FAA's matching contribution, equal to 7% of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984, could elect either to join FERS and Social Security or to remain in CSRS. FERS offers a savings plan to which FAA automatically contributes 1% of pay and matches any employee contribution up to an additional 4% of pay. For FERS participants, FAA also contributes the employer's matching share for Social Security.

FAA recognizes the imputed cost of pensions and other retirement benefits during an employee's active years of service. 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 FAA for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. FAA recognizes the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

S. Grants

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 FAA, typically via an electronic payment process. Expenses are recorded at the time of payment approval during the year. FAA also recognizes an accrued liability and expense for estimated eligible grant payments not yet requested by grant recipients. Grant expenses, including associated administrative costs, are classified on the Consolidated Statements of Net Cost under the line of business program "Airports."

T. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include (1) the allocation of AATF receipts by the OTA; (2) legal, environmental, and contingent liabilities; (3) accruals of accounts and grants payable; (4) accrued workers' compensation; (5) allowance for doubtful accounts receivable; (6) allowances for repairable and obsolete inventory balances; (7) allocations of common costs to CIP; and (8) the allocation of an average cost of like assets within a program, commonly referred to as unit costing.

U. Environmental Liabilities

FAA recognizes two types of environmental liabilities: environmental remediation, and cleanup and decommissioning. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated site

into compliance with applicable environmental standards. The increase or decrease in the annual liability is charged to current year expense.

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

V. Contingencies

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

W. Earmarked Funds Reporting

FAA adopted Statement of Federal Financial Accounting Standards (SFFAS) Number 27, *Identifying and Reporting Earmarked Funds*, effective October 1, 2005. SFFAS Number 27 defines "earmarked funds" as those being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues. FAA's financial statements include the following funds, considered to be "earmarked":

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

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

for future expenditure and earmarked funds previously expended on PP&E projects and therefore unavailable for future expenditure.

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

X. Prior Period Adjustments and Restatements

As discussed here and in Notes 6, 9, 11, 17, and 18, FAA has restated certain balances within Property, Plant, and Equipment (PP&E), net as of September 30, 2006, to correct the effects of untimely recognition of expenses related to Construction in Progress (CIP) activity that did not meet FAA's capitalization requirements and the untimely capitalization of completed assets.

Y. Reclassifications

Certain FY 2006 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

Note 2. Fund Balance with Treasury

Fund balance with Treasury account balances as of September 30, 2007 and 2006, were as follows:

	2007	2006
Earmarked and other funds, excluding AATF	$ 2,849,721	$ 2,576,381
Franchise fund	266,668	219,060
Aviation Insurance Revolving Fund	63,128	53,328
AATF (Note 12)	715,578	645,458
Total	$ 3,895,095	$ 3,494,227

Status of fund balance with Treasury

Unobligated balance		
Available	$ 1,347,764	$ 1,209,311
Not available	1,405,899	1,095,911
Obligated balance not yet disbursed	1,141,432	1,189,005
Total	$ 3,895,095	$ 3,494,227

Unobligated fund balances are either available or not available. Amounts are reported as not available when they are no longer legally available to FAA for obligation. However, balances that are not available can change over time, because they can be used for upward adjustments of obligations that were incurred during the period of availability or for paying claims attributable to that time period.

Note 3. Investments

As of September 30, 2007 and 2006, FAA's investment balances were as follows:

	2007	2006
Intragovernmental securities		
Nonmarketable, par value—AATF	$ 7,930,943	$ 7,893,312
Nonmarketable, market based—Aviation Insurance Fund	886,403	696,667
Interest receivable	87,011	84,750
Investments at cost	$ 8,904,357	$ 8,674,729
Market value disclosure		
Nonmarketable, par value—AATF	$ 7,930,943	$ 7,893,312
Nonmarketable, market based—Aviation Insurance Fund	888,477	698,055
Unamortized discount—nonmarketable, market based	(2,074)	(1,388)
Nonmarketable, market based, net	886,403	696,667
Market value disclosure	$ 8,817,346	$ 8,589,979

The Secretary of the Treasury invests AATF funds on behalf of FAA. FAA investments are considered investment authority and available to offset the cost of operations to the extent authorized by Congress. As of September 30, 2007 and 2006, approximately $7.9 billion was invested in U.S. Treasury Certificates of Indebtedness. Nonmarketable par value Treasury Certificates of Indebtedness are special series debt securities issued by the Bureau of Public Debt to Federal accounts, and are purchased and redeemed at par (face value) exclusively through the Federal Investment Branch of the U.S. Treasury's Bureau of Public Debt. The securities are held to maturity and redeemed at face value on demand; thus, investing entities recover the full amount invested plus interest. Investments as of September 30, 2007, mature on various dates through June 30, 2008, and investments as of September 30, 2006, matured on various dates through June 30, 2007. The annual rate of return on Certificates of Indebtedness is established in the month of issuance. The average rate of return for certificates issued during FY 2007 and FY 2006 was 4.9% and 4.5%, respectively.

Nonmarketable, market-based Treasury securities are debt securities that the Treasury issues to Federal entities without statutorily fixed interest rates. Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities. FAA invests Aviation Insurance Fund collections in nonmarketable market-based securities and amortizes premiums and discounts over the life of the security using the interest method. As of September 30, 2007, these nonmarketable, market-based securities had maturity dates ranging from October 2008 to November 2012 and have an average rate of return of approximately 4.4%.

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

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

Note 4. Accounts Receivable, Prepayments, and Other Assets

Accounts receivable, prepayments, and other assets as of September 30, 2007 and 2006, were composed of the following:

	2007	2006
Intragovernmental		
Accounts receivable	$ 337,983	$ 142,822
Prepayments and other	36,226	29,385
Subtotal, intragovernmental	374,209	172,207
With the public		
Accounts receivable, net	56,834	89,881
Prepayments	27,166	4,710
Deposits in transit and other	24,347	27,629
Subtotal, with the public	108,347	122,220
Total accounts receivable, prepayments, and other	$ 482,556	$ 294,427

Intragovernmental prepayments represent advance payments to other Federal Government entities for agency expenses not yet incurred or for goods or services not yet received.

Accounts receivable from the public are shown net of allowances for uncollectible amounts of $12.4 million and $71.9 million, as of September 30, 2007 and 2006.

Note 5. Inventory, Operating Materials, and Supplies

As of September 30, 2007 and 2006, inventory, operating materials, and supplies were as follows:

Inventory	2007	2006
Held for sale, net	$ 51,673	$ 52,346
Held for repair, net	370,746	288,751
Raw materials, finished goods, and other	17,996	188,878
Excess, obsolete, and unserviceable, net	-	41,793
Subtotal, inventory	440,415	571,768
Operating materials and supplies		
Held for use, net	49,856	41,476
Held for repair, net	17,256	14,866
Excess, obsolete, and unserviceable, net	-	-
Subtotal, operating materials and supplies	67,112	56,342
Total inventory, operating materials, and supplies, net	$ 507,527	$ 628,110

Inventory, operating materials, and supplies are shown net of the following allowances:

Inventory	2007	2006
Held for sale	$ (6,631)	$ -
Held for repair	(95,600)	(87,615)
Raw materials, finished goods, and other	(17,996)	(35,774)
Excess, obsolete, and unserviceable	-	(11,845)
Subtotal, inventory allowances	(120,227)	(135,234)
Operating materials and supplies		
Held for use	(826)	-
Held for repair	(17,255)	(14,866)
Excess, obsolete, and unserviceable	(480)	(758)
Subtotal, operating materials and supplies allowances	(18,561)	(15,624)
Total allowances	$ (138,788)	$ (150,858)

Inventory is considered held for repair based on the condition of the asset or item, and the allowance for repairable inventory is based on the average historical cost of such repairs.

FAA transfers excess items for disposal into the government-wide automated disposal system. Disposal proceeds, recognized upon receipt, may go to the U.S. Treasury's General Fund or to an FAA appropriation, depending on the nature of the item and the disposal method.

Note 6. Property, Plant, and Equipment, Net

Property, plant, and equipment balances at September 30, 2007 and 2006, were as follows:

Class of fixed asset	2007 Acquisition value	2007 Accumulated depreciation	2007 Net book value
Real property, including land	$ 4,765,283	$ (2,441,132)	$ 2,324,151
Personal property	18,125,252	(9,420,105)	8,705,147
Assets under capital lease (Note 9)	166,387	(111,373)	55,014
Construction in progress	2,787,868	-	2,787,868
Property not in use	93,593	(74,003)	19,590
Total property, plant, and equipment	$ 25,938,383	$ (12,046,613)	$ 13,891,770

Class of fixed asset	2006 as Restated Acquisition value	2006 as Restated Accumulated depreciation	2006 as Restated Net book value
Real property, including land	$ 4,553,609	$ (2,284,087)	$ 2,269,522
Personal property	17,732,333	(8,454,841)	9,277,492
Assets under capital lease (Note 9)	127,439	(89,181)	38,258
Construction in progress	2,062,262	-	2,062,262
Property not in use	117,050	(86,598)	30,452
Total property, plant, and equipment	$ 24,592,693	$ (10,914,707)	$ 13,677,986

As discussed in Notes 1.X and 18, FAA has restated and reduced PP&E, net, as of September 30, 2006, by $954.0 million.

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

Assets temporarily not in use, including decommissioned assets awaiting disposal, are reflected in FAA financial records as Property Not in Use.

Note 7. Environmental Liabilities

FAA's environmental liabilities as of September 30, 2007 and 2006, were as follows:

	2007	2006
Environmental remediation	$ 316,748	$ 330,035
Environmental cleanup and decommissioning	250,138	243,229
Total environmental liabilities	$ 566,886	$ 573,264

Note 8. Employee Related and Other Liabilities

As of September 30, 2007 and 2006, FAA's employee related and other liabilities were as follows:

	2007		
Intragovernmental	Non-current liabilities	Current liabilities	Total
Advances received	$ -	$ 46,379	$ 46,379
Accrued payroll and benefits payable to other agencies	-	75,464	75,464
Other liabilities	-	11,219	11,219
Liabilities covered by budgetary or other resources	-	133,062	133,062
Federal Employees' Compensation Act (FECA) payable	113,426	85,761	199,187
Liabilities not covered by budgetary or other resources	113,426	85,761	199,187
Subtotal, intragovernmental	113,426	218,823	332,249
With the public			
Advances received and other	-	101,989	101,989
Accrued payroll and benefits payable to employees	-	182,483	182,483
Liabilities covered by budgetary or other resources	-	284,472	284,472
Accrued unfunded annual and other leave and associated benefits	46,423	330,992	377,415
Sick leave compensation benefits for air traffic controllers	65,405	13,319	78,724
Capital leases (Note 9)	57,612	14,499	72,111
Legal claims	-	14,200	14,200
Other accrued liabilities	84,488	-	84,488
Liabilities not covered by budgetary or other resources	253,928	373,010	626,938
Subtotal, with the public	253,928	657,482	911,410
Total employee related and other liabilities	$ 367,354	$ 876,305	$ 1,243,659

	2006		
	Non-current liabilities	Current liabilities	Total
Intragovernmental			
Advances received	$ -	$ 46,658	$ 46,658
Accrued payroll and benefits payable to other agencies	-	43,750	43,750
Other liabilities	-	4,666	4,666
Liabilities covered by budgetary or other resources	-	95,074	95,074
Federal Employees' Compensation Act (FECA) payable	111,953	86,529	198,482
Liabilities not covered by budgetary or other resources	111,953	86,529	198,482
Subtotal, intragovernmental	111,953	181,603	293,556
With the public			
Advances received and other	-	70,871	70,871
Accrued payroll and benefits payable to employees	-	175,510	175,510
Liabilities covered by budgetary or other resources	-	246,381	246,381
Accrued unfunded annual and other leave and associated benefits	61,733	440,155	501,888
Sick leave compensation benefits for air traffic controllers	68,194	10,306	78,500
Capital leases (Note 9)	34,199	8,607	42,806
Legal claims	-	8,000	8,000
Other accrued liabilities	88,231	-	88,231
Liabilities not covered by budgetary or other resources	252,357	467,068	719,425
Subtotal, with the public	252,357	713,449	965,806
Total employee related and other liabilities	$ 364,310	$ 895,052	$ 1,259,362

Accrued payroll and benefits to other agencies consist of FAA contributions payable to other Federal agencies for employee benefits. These include FAA's contributions payable toward life, health, retirement benefits, Social Security, and matching contributions to the Thrift Savings Plan.

An unfunded liability is recorded for the actual cost of workers' compensation benefits to be reimbursed to the DOL, pursuant to the FECA. Because DOL bills FAA 2 years after it pays such claims, FAA's liability accrued as of September 30, 2007, includes workers' compensation benefits paid by DOL during the periods July 1, 2005, through June 30, 2007, and accrued liabilities for the quarter July 1, 2007, through September 30, 2007. FAA's liability accrued as of September 30, 2006, included workers' compensation benefits paid by DOL during the period July 1, 2004, through June 30, 2006, and accrued liabilities for the quarter July 1, 2006, through September 30, 2006.

The estimated liability for accrued unfunded leave and associated benefits includes annual and other types of vested leave, and sick leave under the terms of certain collective bargaining agreements, including the National Air Traffic Controllers Association (NATCA) agreement, Article 25, Section 13. For example, the NATCA agreement gives air traffic controllers, who are covered under FERS, the option to receive a lump sum payment for 40% of their accumulated sick leave as of their

effective retirement date. Based on sick leave balances, this liability was $78.7 million and $78.5 million as of September 30, 2007 and 2006, respectively.

FAA estimated that 100% of its $14.2 million and $8.0 million legal claims liabilities as of September 30, 2007 and 2006, respectively, would be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Treasury.

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

Note 9. Leases

FAA has both capital and operating leases.

Capital Leases

Following is a summary of FAA's assets under capital lease as of September 30, 2007 and 2006:

	2007	2006 as Restated
Land, Buildings, and Machinery	$ 166,387	$ 127,439
Accumulated Depreciation	(111,373)	(89,181)
Assets Under Capital Lease, net	$ 55,014	$ 38,258

As of September 30, 2007, FAA's future payments due on assets under capital lease were as follows:

Future payments due by fiscal year (Liabilities not covered by budgetary or other resources)	
Year 1 (FY 2008)	$ 14,230
Year 2 (FY 2009)	13,945
Year 3 (FY 2010)	13,280
Year 4 (FY 2011)	12,267
Year 5 (FY 2012)	8,270
After 5 Years	59,577
Less: Imputed interest	(49,458)
Total capital lease liability	$ 72,111

FAA's capital lease payments are funded annually. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually.

Operating Leases

FAA has operating leases for real property, aircraft, and telecommunications equipment. Future operating lease payments due as of September 30, 2007, were as follows:

Fiscal year	
Year 1 (FY 2008)	$ 105,170
Year 2 (FY 2009)	98,527
Year 3 (FY 2010)	91,968
Year 4 (FY 2011)	78,783
Year 5 (FY 2012)	65,963
After 5 Years	130,098
Total future operating lease payments	$ 570,509

Operating lease expense incurred during the years ended September 30, 2007 and 2006, was $190.5 million and $201.7 million, respectively, including General Services Administration (GSA) leases that have a short termination privilege, but FAA intends to remain in the lease. The operating lease amounts due after 5 years do not include estimated payments for leases with annual renewal options. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.

Note 10. Federal Employee and Veterans Benefits Payable

As of September 30, 2007 and 2006, FECA actuarial liabilities were $884.0 million and $888.1 million, respectively. The DOL calculates the FECA liability for DOT, and DOT allocates the liability amount to FAA based on actual workers' compensation payments to FAA employees over the preceding 4 years. FECA liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The estimated liability is not covered by budgetary or other resources and thus will require future appropriated funding.

Note 11. Net Cost by Program and Other Statement of Net Cost Disclosures

As discussed in Notes 1.X, 6, 9, 17, and 18, FAA has restated its FY 2006 financial statements to correct the effect of untimely processing of transactions associated with capital projects. As a result, net cost as reported on the FY 2006 Consolidated Statement of Net Cost was decreased by $317.8 million, within the Air Traffic Organization line of business. The costs associated with the disclosure of net cost by Strategic Goal Areas were similarly affected and restated with decreases to Safety for $230.9 million and to Capacity for $86.9 million, respectively.

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

The following are net costs for the years ended September 30, 2007 and 2006, by strategic goal:

For the Year Ended September 30, 2007

	Strategic Goal Areas				
Line of business programs	**Safety**	**Capacity**	**Organizational Excellence**	**International Leadership**	**Total**
Air Traffic Organization	$ 7,109,342	$ 2,515,956	$ 18,393	$ 36,785	$ 9,680,476
Aviation Safety	993,305	1,418	11,343	6,683	1,012,749
Airports	2,059,893	1,863,712	-	-	3,923,605
Commercial Space Transportation	8,298	2,468	2	-	10,768
Non line of business programs					
Regions and center operations and other	6,615	9,343	170,710	188	186,856
Net cost	$ 10,177,453	$ 4,392,897	$ 200,448	$ 43,656	$ 14,814,454

For the Year Ended September 30, 2006, as Restated

	Strategic Goal Areas				
Line of business programs	**Safety**	**Capacity**	**Organizational Excellence**	**International Leadership**	**Total**
Air Traffic Organization	$ 6,716,170	$ 2,530,308	$ 39,422	$ 11,539	$ 9,297,439
Aviation Safety	569,435	377	373,052	378	943,242
Airports	2,013,004	1,820,794	18,104	-	3,851,902
Commercial Space Transportation	12,773	2,476	-	-	15,249
Non line of business programs					
Regions and center operations and other	20,553	419	6,609	4	27,585
Net cost	$ 9,331,935	$ 4,354,374	$ 437,187	$ 11,921	$ 14,135,417

The following is FAA's distribution of FY 2007 and FY 2006 net costs by intragovernmental-related activity versus with the public:

	For the Year Ended September 30, 2007		
Line of business programs	**Intra-governmental**	**With the Public**	**Total**
Air Traffic Organization			
Expenses	$ 2,121,741	$ 7,703,336	$ 9,825,077
Less earned revenues	(143,584)	(1,017)	(144,601)
Net costs	1,978,157	7,702,319	9,680,476
Aviation Safety			
Expenses	158,478	859,837	1,018,315
Less earned revenues	(2,231)	(3,335)	(5,566)
Net costs	156,247	856,502	1,012,749
Airports			
Expenses	17,955	3,905,764	3,923,719
Less earned revenues	-	(114)	(114)
Net costs	17,955	3,905,650	3,923,605
Commercial Space Transportation			
Expenses	1,676	9,092	10,768
Net costs	1,676	9,092	10,768
Non line of business programs			
Regions and center operations and other programs			
Expenses	94,081	510,448	604,529
Less earned revenues	(100,381)	(317,292)	(417,673)
Net costs	(6,300)	193,156	186,856
Net cost of operations			
Total expenses	2,393,931	12,988,477	15,382,408
Less earned revenues	(246,196)	(321,758)	(567,954)
Net costs	$ 2,147,735	$ 12,666,719	$ 14,814,454

Line of business programs	For the Year Ended September 30, 2006, as Restated		
	Intra-governmental	With the Public	Total
Air Traffic Organization			
Expenses	$ 2,043,172	$ 7,454,676	$ 9,497,848
Less earned revenues	(198,032)	(2,377)	(200,409)
Net costs	1,845,140	7,452,299	9,297,439
Aviation Safety			
Expenses	147,736	800,759	948,495
Less earned revenues	(1,439)	(3,814)	(5,253)
Net costs	146,297	796,945	943,242
Airports			
Expenses	17,814	3,834,327	3,852,141
Less earned revenues	-	(239)	(239)
Net costs	17,814	3,834,088	3,851,902
Commercial Space Transportation			
Expenses	2,138	13,111	15,249
Net costs	2,138	13,111	15,249
Non line of business programs			
Regions and center operations and other programs			
Expenses	95,957	521,632	617,589
Less earned revenues	(279,751)	(310,253)	(590,004)
Net costs	(183,794)	211,379	27,585
Net cost of operations			
Total expenses	2,306,817	12,624,505	14,931,322
Less earned revenues	(479,222)	(316,683)	(795,905)
Net costs	$ 1,827,595	$ 12,307,822	$ 14,135,417

Note 12. Earmarked Funds

FAA's earmarked funds are presented among two classifications: the first includes the AATF and all related funds that receive funding from the AATF: the Operations Trust Fund, Grants-in-Aid for Airports, Facilities and Equipment, and Research Engineering and Development, all of which are funded exclusively by the AATF. The AATF classification also includes the Operations General Fund, which is primarily funded through transfers from Operations—AATF, but is additionally supplemented by the General Fund of the U.S. Treasury through annual appropriations. Because the Operations General Fund is primarily funded from the AATF, and because it is not reasonably possible to differentiate cash balances between those originally flowing from the AATF versus general fund appropriations, the Operations General Fund is presented as an earmarked fund. In addition, this note presents only the earmarked funds that retain available financing sources. As such, the balances in the PP&E fund, though funded from the Facilities and Equipment earmarked fund, are reported as other funds and therefore are excluded. The second classification of earmarked funds includes the Aviation Insurance Revolving Fund and Aviation User Fees.

Airport and Airway Trust Fund

FAA's consolidated financial statements include the results of operations and financial position of the AATF. The U.S. Congress created the AATF with the passage of the Airport and Airway Revenue Act of 1970. The Act provides a dedicated source of funding to the nation's aviation system through the collection of several aviation-related excise taxes. The IRS collects these taxes on behalf of FAA's AATF. These taxes can be withdrawn only as appropriated by the U.S. Congress. Twice a month, Treasury estimates the amount collected and adjusts the estimates to reflect actual collections quarterly. The total taxes recognized in FY 2007 included OTA's estimate of $2.6 billion for the quarter ended September 30, 2007. The total taxes recognized in FY 2006 included OTA's estimate for the last two quarters in the amount of $5.2 billion.

Other Earmarked Funds

- The FAA has authority under the Aviation Insurance Program to insure commercial airlines that may be called upon to perform various services considered necessary to the foreign policy interests of the United States, when insurance is not available commercially or is available only on unreasonable terms and conditions. The insurance issued, commonly referred to as war-risk insurance, covers losses resulting from war, terrorism, or other hostile acts. FAA reported premium insurance revenues of $171.0 million and $168.4 million for the periods ended September 30, 2007 and 2006, respectively. The Aviation Insurance Program activity is reported below as other earmarked funds. The Aviation Insurance Program is discussed further at Notes 1.W. and 16.

- Aviation User Fees, commonly referred to as overflight fees, are charged to commercial airlines that fly in U.S. controlled air space, but neither take off or land in the U.S. FAA reported overflight fees of $50.3 million and $66.5 million for the periods ended September 30, 2007 and 2006, respectively. Aviation User Fees activity is reported below as other earmarked funds.

Fiscal data as of, and for the year ended September 30, 2007, is summarized on the following page. Intra-agency transactions have not been eliminated in the amounts presented.

Balance Sheet	2007 AATF	2007 Other Earmarked Funds	2007 Total Earmarked Funds
Assets			
Fund balance with Treasury	$ 715,578	$ 2,810,935	$ 3,526,513
Investments, net	8,006,774	897,583	8,904,357
Accounts receivable, net	179,673	3,048,845	3,228,518
Other assets	-	2,850,676	2,850,676
Total assets	$ 8,902,025	$ 9,608,039	$ 18,510,064
Liabilities and net position			
AATF amounts due to FAA	$ 2,855,239	$ -	$ 2,855,239
Other liabilities	-	2,910,439	2,910,439
Unexpended appropriations	-	1,097,039	1,097,039
Cumulative results of operations	6,046,786	5,600,561	11,647,347
Total liabilities and net position	$ 8,902,025	$ 9,608,039	$ 18,510,064
Statement of net cost			
Program costs	$ 12,695,908	$ 1,169,634	$ 13,865,542
Less earned revenue:			
Aviation insurance premiums	-	171,022	171,022
Overflight user fees	-	50,305	50,305
Other revenue	-	238,246	238,246
Net cost of operations	$ 12,695,908	$ 710,061	$ 13,405,969
Statement of changes in net position			
Cumulative results beginning of period	$ 6,398,812	$ 6,377,085	$ 12,775,897
Non-exchange revenue:			
Passenger ticket tax	8,321,262	-	8,321,262
International departure tax	2,212,814	-	2,212,814
Investment income	473,252	-	473,252
Fuel taxes	835,128	-	835,128
Waybill tax	568,591	-	568,591
Tax refunds and credits	(67,229)	-	(67,229)
Other revenue	64	28,515	28,579
Budgetary financing sources	-	1,878,154	1,878,154
Other financing sources	-	(1,973,132)	(1,973,132)
Unexpended appropriations	-	1,097,039	1,097,039
Net cost of operations	(12,695,908)	(710,061)	(13,405,969)
Change in net position	(352,026)	320,515	(31,511)
Net position end of period	$ 6,046,786	$ 6,697,600	$ 12,744,386

Balance Sheet	AATF	Other Earmarked Funds	Total Earmarked Funds
		2006	
Assets			
Fund balance with Treasury	$ 645,458	$ 2,597,692	$ 3,243,150
Investments, net	7,893,312	781,417	8,674,729
Accounts receivable, net	74,227	2,395,852	2,470,079
Other assets	-	3,455,833	3,455,833
Total assets	$ 8,612,997	$ 9,230,794	$ 17,843,791
Liabilities and net position			
AATF amounts due to FAA	$ 2,214,185	$ -	$ 2,214,185
Other liabilities	-	2,427,235	2,427,235
Unexpended appropriations	-	426,474	426,474
Cumulative results of operations	6,398,812	6,377,085	12,775,897
Total liabilities and net position	$ 8,612,997	$ 9,230,794	$ 17,843,791
Statement of net cost			
Program costs	$ 11,604,263	$ 2,066,167	$ 13,670,430
Less earned revenue:			
Aviation insurance premiums	-	168,449	168,449
Overflight user fees	-	66,541	66,541
Other revenue	-	405,192	405,192
Net cost of operations	$ 11,604,263	$ 1,425,985	$ 13,030,248
Statement of changes in net position			
Cumulative results beginning of period	$ 7,317,573	$ 5,048,701	$ 12,366,274
Non-exchange revenue:			
Passenger ticket tax	7,423,272	-	7,423,272
International departure tax	1,993,697	-	1,993,697
Investment income	483,363	-	483,363
Fuel taxes	419,439	-	419,439
Waybill tax	478,614	-	478,614
Tax refunds and credits	(112,909)	-	(112,909)
Other revenue	26	16,207	16,233
Budgetary financing sources	-	3,446,225	3,446,225
Other financing sources	-	(708,063)	(708,063)
Unexpended appropriations	-	426,474	426,474
Net cost of operations	(11,604,263)	(1,425,985)	(13,030,248)
Change in net position	(918,761)	1,754,858	836,097
Net position end of period	$ 6,398,812	$ 6,803,559	$ 13,202,371

Note 13. Imputed Financing Sources

FAA recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. Amounts paid from the U.S. Treasury's Judgment Fund in settlement of claims or court assessments against FAA are also recognized as imputed financing. For the fiscal years ended September 30, 2007 and 2006, imputed financing was as follows:

	2007	2006
Office of Personnel Management	$ 517,911	$ 473,053
Treasury Judgment Fund	15,813	21,801
Total imputed financing sources	$ 533,724	$ 494,854

Note 14. Statement of Budgetary Resources Disclosures

The Required Supplementary Information section of this report includes a schedule of budgetary resources by each of FAA's major fund types.

Budget authority as reported in the Combined Statements of Budgetary Resources includes amounts made available to FAA from general, earmarked, and special funds. In contrast, appropriations received as reported in the Consolidated Statements of Changes in Net Position pertain only to amounts made available to FAA from general funds. The following is a reconciliation of these amounts:

	2007	2006
Combined Statement of Budgetary Resources—budget authority	$ 19,725,794	$ 18,459,775
Less amounts made available to FAA from AATF dedicated collections	(16,884,638)	(15,743,658)
Net transfers of budget authority and other	(46,331)	(22,216)
Less special fund aviation user fees	(48,508)	(48,901)
Consolidated Statement of Changes in Net Position—appropriations received	$ 2,746,317	$ 2,645,000

In FY 2007, FAA did not have any rescissions of budgetary resources as a result of operating under a continuing resolution. As of September 30, 2007, the amount of budgetary resources obligated for undelivered orders was $8.2 billion.

In FY 2006, FAA had rescissions of budgetary resources to Grants-in-Aid to Airports of $1.06 billion, Operations of $26.5 million, and other non-AATF earmarked funds of $82.2 million. As of September 30, 2006, the amount of budgetary resources obligated for undelivered orders was $8.3 billion.

Spending authority from offsetting collections, obligations incurred, and gross outlays of FAA's Operations appropriation were reduced by $5,485.6 million on FAA's FY 2006 Combined Statement of Budgetary Resources to eliminate the effect of transfers between the AATF and FAA general fund component. However, OMB Circular No. A-136, *Financial Reporting Requirements*, provided clarifying guidance during FY 2007 specifying that budgetary resources transferred or exchanged between components within a reporting entity should not be eliminated. Thus, beginning FY 2007, the effects of these transfers are no longer eliminated. Therefore, as reported on the FY 2007 Combined Statement of Budgetary Resources, obligations incurred, gross outlays, and spending authority from offsetting collections each includes $5,627.9 million as part of the AATF and FAA's recipient general fund component.

Budget authority on the FY 2006 Combined Statement of Budgetary Resources includes expired funds of $3.4 billion that are not presented in the Budget of the United States Government. Also, obligations incurred on the FY 2006 Combined Statement of Budgetary Resources includes $78.0 million of expired funds and $93.3 million of certain reimbursable and revolving fund obligations incurred that are not presented in the *Budget of the United States Government*. As a result, FAA's FY 2006 Combined Statement of Budgetary Resources differs from FY 2006 "actuals" reported in the appendix of the FY 2007 *Budget of the United States Government*. (The *Budget of the United States Government* is available on the Internet at **www.whitehouse.gov/omb/budget/fy2008/**.) As of the date of issuance of FAA's FY 2007 Combined Statement of Budgetary Resources, the Budget of the United States Government for FY 2009, which will contain "actual" FY 2007 amounts, was not yet published. The Office of Management and Budget is expected to publish this information early in calendar year 2008.

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

- Congress mandated permanent indefinite appropriations for Facilities and Equipment, Grants-in-Aid, and Research, Development, and Engineering to fully fund special projects that were ongoing and spanned several years.
- FAA does not have obligations classified as "exempt from apportionment." However, during FY 2007 and FY 2006, direct and reimbursable obligations incurred against amounts apportioned under categories A and B, as defined in OMB Circular No. A-11, Part 4, *Instructions on Budget Execution*, were as follows:

	2007		2006	
	Direct	Reimbursable	Direct	Reimbursable
Category A	$ 6,114,486	$ 396,088	$ 6,044,220	$ 409,800
Category B	14,193,011	262,314	8,503,766	523,090
Total	$ 20,307,497	$ 658,402	$ 14,547,986	$ 932,890

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent years until expiration, upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available. At the end of FY 2006, $22.0 million of obligated balances were in appropriations cancelled at year-end pursuant to 31 U.S.C. 1552 and thus have not been brought forward to FY 2007. Additionally, transfers in FY 2007 to DOT for Essential Air Services also reduced balances available for obligation.

Note 15. Financing Sources Yet to Be Provided

The following table shows the relationship between liabilities not covered by budgetary or other resources, as reported on the balance sheets as of September 30, 2007 and 2006, and the change in components of net cost of operations that will require or generate resources in future periods, as reported on the statements of financing.

	2007	2006	Change
Capital leases (Notes 8 & 9)	$ 72,111	$ 42,806	$ 29,305
Legal claims (Note 8)	14,200	8,000	6,200
FECA payable (Note 8)	199,187	198,482	705
Sick leave compensation benefits and return rights (Note 8)	78,724	78,500	224
Increases—components of net cost of operations requiring or generating resources in future periods			36,434
Other accrued liabilities (Note 8)	84,488	88,231	(3,743)
FECA actuarial liability (Note 10)	883,982	888,082	(4,100)
Environmental liabilities (Note 7)	566,886	573,264	(6,378)
Unfunded annual & other leave & associated benefits (Note 8)	377,415	501,888	(124,473)
Decreases—resources that fund expenses recognized in prior periods (Note 17)			(138,694)
Total liabilities not covered by budgetary resources	2,276,993	2,379,253	(102,260)
Total liabilities covered by budgetary resources	1,478,739	1,164,483	314,256
Total liabilities	$ 3,755,732	$ 3,543,736	$ 211,996

Note 16. Commitments, Contingencies, and Other Disclosures

Reauthorization. Effective October 1, 2007, FAA is operating under a continuing resolution (CR), Public Law 110-92, for its appropriation and many of its programmatic and financing authorities. The CR will be in effect through November 16, 2007, and includes a provision that allows the FAA to collect aviation-related excise taxes and to continue spending at fiscal 2007 rates. It also provides sufficient contract authority for the Airport Improvement Program.

Without legislative action, many of FAA's programmatic and financing authorities, including Airport Improvement Program contract authority, and the authority to collect excise taxes into and make expenditures from the AATF, will expire after November 16, 2007. The outcome of future legislative and executive negotiation of these matters is uncertain. However, FAA management anticipates that any expiration of Public Law 110-92 will be of limited duration and will not affect the continuing operations of FAA.

Contract Options. As of September 19, 2007, FAA had contract options of $3.51 billion. These contract options give FAA the unilateral right to purchase additional equipment or services or to extend the contract terms. Exercising this right would require the obligation of funds in future years.

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

FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into Airport Improvement Program grant agreements. FAA records an obligation when a grant is awarded. Through September 30, 2007, FAA issued letters of intent covering FY 1988 through FY 2020 totaling $5.6 billion. As of September 30, 2007, FAA had obligated $4.3 billion of this total amount, leaving $1.3 billion unobligated.

Through September 30, 2006, FAA issued letters of intent covering FY 1988 through FY 2020 totaling $5.3 billion. As of September 30, 2006, FAA had obligated $3.8 billion of this total amount, leaving $1.5 billion unobligated.

Aviation Insurance Program. FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations for which commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce, national security, and the foreign policy of the United States. FAA may issue (1) non-premium insurance, and (2) premium insurance for which a risk-based premium is charged to the air carrier, to the extent practical.

FAA maintains standby non-premium war-risk insurance policies for 40 air carriers having approximately 1,643 aircraft available for Department of Defense and for 9 carriers available for State Department charter operations.

On September 22, 2001, the Air Transportation Safety and System Stabilization Act (Public Law 107–42) expanded premium insurance program authority to permit insurance of domestic operations. Under this program, FAA initially provided third party liability war-risk insurance to U.S. carriers whose coverage was cancelled following the terrorist attacks of September 11, 2001. Public Law 108–11 required the FAA to extend policies in effect on July 19, 2002, and to add hull loss and passenger and third party war-risk liability insurance to those policies. Subsequent acts ending with the Revised Continuing Appropriations Resolution, 2007, P.L. 110–5, ultimately extended the mandatory provision of insurance through

September 30, 2007, expanded the authority of the DOT to include war and terrorism insurance for aircraft and aircraft engine manufacturers, extended the potential $100 million third party liability limitation for air carriers through September 30, 2007, and expanded it to include aircraft and aircraft engine manufacturers. On September 1, 2007, the Secretary of Transportation extended coverage through December 31, 2007. During this year there were 77 FAA premium war-risk policies. Insured air carrier per occurrence limits for combined hull and liability coverage range from $100 million to $4 billion.

Current war-risk coverage is intended as a temporary measure to provide insurance to qualifying carriers while allowing time for the commercial insurance market to stabilize. Premiums under this program are established by FAA and are based on the value of policy coverage limits and aircraft activity. However, airlines' total charge for coverage is subject to a cap mandated by Congress. During FY 2007 and FY 2006, FAA recognized insurance premium revenue of $171.0 million and $168.4 million, respectively. Premiums are recognized as revenue on a straight-line basis over the period of coverage. Premium revenue is reported on the Consolidated Statement of Net Cost, under "Region and Center Operations and Other Programs."

FAA airline war-risk insurance policies normally establish a maximum liability for claims associated with a single war-risk event. The current maximum liability for both hull loss and liability, per occurrence, is $4.0 billion. No claims for losses were pending as of September 30, 2007 or 2006. Since inception of the aviation insurance program in 1951, the FAA has intermittently insured air carrier operations on both a premium and non-premium basis. During its history, the Aviation Insurance Program has paid only four claims, all involving minor dollar amounts. Because of the unpredictable nature of war risk and the absence of historical claims experience on which to base an estimate, no reserve for insurance losses has been recorded. Claims for losses are underwritten by the Federal Government and not solely by FAA.

Legal Claims. As of September 30, 2007 and 2006, FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at $23.7 million and $23.5 million, respectively. There are two unasserted claims involving contract disputes with a possible exposure of $172.0 million.

Note 17. Reconciliation of Net Cost of Operations to Budget

This note, previously presented as the Statement of Financing, reconciles the resources available to FAA to finance operations and the net cost of operating FAA programs.

Resources used to finance activities	2007	2006 as Restated
Budgetary resources obligated		
Obligations incurred	$ 20,965,899	$ 15,480,876
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	6,793,663	1,593,416
Obligations, net of offsetting collections	14,172,236	13,887,460
Other resources		
Transfers in/(out) without reimbursement	212	(20,506)
Imputed financing from costs absorbed by others	533,724	494,854
Net other resources used to finance activities	533,936	474,348
Total resources used to finance activities	14,706,172	14,361,808
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet received	(322,969)	(675,564)
Resources that fund expenses recognized in prior periods (decreases in unfunded liabilities) (Note 15)	138,694	325,646
Resources that finance the acquisition of assets	1,224,722	1,548,065
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(15,678)	(8,163)
Total resources used to finance items not part of net cost of operations	1,024,769	1,189,984
Total resources used to finance net cost of operations	**13,681,403**	**13,171,824**
Components of net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods		
Increases in annual leave liability and other unfunded liabilities	-	20,362
Other	-	2,314
Components not requiring or generating resources in future periods		
Depreciation and amortization	1,163,413	883,753
Other	(30,362)	57,164
Total components of net cost of operations that will not require or generate resources	1,133,051	940,917
Total components of net cost of operations that will not require or generate resources in the current period	**1,133,051**	**963,593**
Net cost of operations	**14,814,**	**14,135,**

As discussed in notes 1.X, 6, 9, 11, and 18, FAA has restated PP&E, net, as of September 30, 2006, to reflect the correction of untimely processing of transactions related to capital projects. One of the effects of this correction is a reduction to the Net Cost of Operations of $317.8 million which is reflected in this note as an upward adjustment to the line titled "Resources that finance the acquisition of assets." A second effect of the correction is a downward adjustment of $200.1 million for depreciation expense that is reflected on the lines titled "Resources that finance the acquisition of assets" and "Depreciation and amortization."

Note 18. Restatements

FAA has restated certain balances within PP&E, net cost and net position as of September 30, 2006, to correct an error in accounting for CIP. A review of CIP performed in FY 2007 determined that certain construction projects and related transactions should have been expensed, and that certain other completed projects should have been capitalized and depreciated in FY 2006 and previous years. The effects of this correction resulted in a reduction and restatement of CIP, as presented in the balance sheet at September 30, 2006, totaling $2,593.7 million. This reduction of CIP is composed of a reclassification of $1,696.3 million from CIP to other PP&E categories for completed projects, together with an increase in accumulated depreciation of $56.6 million, and $897.4 million of non-capital transactions charged to expense.

The $954.0 million combined effect of the $56.6 million depreciation adjustment and the $897.4 million non-capital expense is reflected as a $317.8 million reduction of total net cost as presented on the FY 2006 *Consolidated Statement of Net Cost* and a $1,271.8 million reduction to the beginning balance of cumulative results of operations on the FY 2006 *Consolidated Statement of Net Position*.

The restatement is also reflected in note 17, *Reconciliation of Net Cost of Operations to Budget*, as FY 2006 net cost of operations was reduced by $317.8 million.

The restatement as reflected on the FY 2006 *Consolidated Balance Sheet*, the *Consolidated Statement of Net Cost*, and the *Consolidated Statement of Changes in Net Position* is summarized in the chart below.

	2006 Originally Stated	Effect of Restatement	2006 as Restated
Consolidated Balance Sheet Effects			
Real property, including land	$ 4,348,824	$ 204,785	$ 4,553,609
Accumulated depreciation—real property, including land	(2,259,124)	(24,963)	(2,284,087)
Personal property	16,241,315	1,491,018	17,732,333
Accumulated depreciation—personal property	(8,423,232)	(31,609)	(8,454,841)
Assets under capital lease	127,024	415	127,439
Accumulated depreciation—assets under capital lease	(89,181)	-	(89,181)
Construction in progress	4,655,957	(2,593,695)	2,062,262
Property not in use	117,050	-	117,050
Accumulated depreciation—property not in use	(86,598)	-	(86,598)
Total property, plant, and equipment	$ 14,632,035	$ (954,049)	$ 13,677,986
Consolidated Statement of Net Cost Effects			
Air Traffic Organization	$ 9,615,233	$ (317,794)	$ 9,297,439
Aviation Safety	943,242	-	943,242
Airports	3,851,902	-	3,851,902
Commercial Space Transportation	15,249	-	15,249
Regions and center operations and other programs	27,585	-	27,585
Total net cost	$ 14,453,211	$ (317,794)	$ 14,135,417
Consolidated Statement of Changes in Net Position Effects			
Beginning balance, cumulative results of operations	$ 23,688,582	$ (1,271,843)	$ 22,416,739

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Non Federal Physical Property
Airport Improvement Program
For the Fiscal Years Ended September 30

State/Territory	2007	2006	2005	2004	2003
Alabama	$ 58,006	$ 75,753	$ 59,571	$ 55,527	$ 59,760
Alaska	238,486	182,020	210,446	153,237	158,950
Arizona	64,170	100,235	85,226	52,286	75,247
Arkansas	41,002	48,454	42,342	23,198	35,530
California	377,060	330,255	322,128	236,031	216,981
Colorado	95,914	90,421	61,916	101,792	57,872
Connecticut	8,279	9,154	9,991	8,511	7,011
Delaware	12,109	7,127	9,707	2,813	2,577
District of Columbia	47,131	-	5,657	555	447
Florida	209,219	210,656	181,151	145,690	166,066
Georgia	78,564	70,484	128,053	96,081	48,147
Hawaii	74,179	45,815	33,097	21,020	24,767
Idaho	22,307	30,687	24,855	22,677	30,721
Illinois	197,470	111,302	152,307	106,145	74,202
Indiana	57,649	69,098	45,537	49,219	47,288
Iowa	33,501	32,866	34,064	24,282	37,521
Kansas	32,735	32,497	25,864	24,118	22,694
Kentucky	62,393	70,784	64,216	51,904	67,031
Louisiana	66,659	59,783	79,747	59,438	45,394
Maine	24,413	16,960	26,324	45,987	18,143
Maryland	52,523	54,956	38,864	39,450	22,933
Massachusetts	30,217	70,894	27,907	23,495	65,930
Michigan	99,889	120,606	137,814	125,928	84,030
Minnesota	64,822	88,144	67,267	50,472	58,826
Mississippi	69,488	40,229	41,696	39,061	30,289
Missouri	91,667	92,826	116,612	89,848	59,642
Montana	50,018	45,161	27,877	36,754	34,273
Nebraska	30,227	31,567	28,633	25,280	19,423
Nevada	58,106	95,972	56,148	58,418	57,506
New Hampshire	49,344	17,327	22,245	7,996	35,082
New Jersey	88,620	94,207	53,960	55,174	29,402
New Mexico	27,373	27,799	19,761	12,756	17,336

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Non Federal Physical Property
Airport Improvement Program
For the Fiscal Years Ended September 30

State/Territory	2007	2006	2005	2004	2003
New York	121,806	124,315	118,853	86,382	122,675
North Carolina	70,696	79,245	102,669	44,668	75,317
North Dakota	26,433	17,530	23,074	29,007	15,458
Ohio	113,446	126,327	100,776	118,138	68,717
Oklahoma	40,475	43,459	42,941	31,272	34,351
Oregon	34,823	43,946	53,329	33,793	34,687
Pennsylvania	90,909	135,097	126,833	105,293	112,761
Rhode Island	24,985	16,085	11,901	10,861	13,736
South Carolina	24,614	43,391	38,246	23,772	22,531
South Dakota	24,161	18,489	22,065	20,915	16,841
Tennessee	96,290	78,238	45,678	47,298	62,412
Texas	212,737	260,496	235,495	174,336	159,929
Utah	49,935	38,669	41,200	26,008	24,804
Vermont	10,234	7,325	4,333	6,657	2,310
Virginia	104,667	97,613	82,330	70,688	45,240
Washington	111,797	97,519	168,764	73,153	53,351
West Virginia	34,623	35,917	26,991	20,637	24,373
Wisconsin	50,008	55,632	53,074	60,615	48,264
Wyoming	18,687	25,509	38,536	33,544	21,158
American Samoa	9,732	4,792	9,615	6,328	18,903
Guam	29,920	12,428	11,137	2,244	5,937
Northern Mariana Island	20,024	13,302	10,274	8,014	10,227
Puerto Rico	9,760	26,024	16,209	9,323	7,419
Virgin Islands	4,732	1,114	4,702	2,726	8,959
Administration	74,685	75,640	82,415	86,485	65,336
Totals	$ 3,923,719	$ 3,852,141	$ 3,712,423	$ 2,977,300	$ 2,786,717

FAA makes project grants for airport planning and development under the Airport Improvement Program to maintain a safe and efficient nationwide system of public-use airports that meets both present and future needs of civil aeronautics. FAA works to improve the infrastructure of the nation's airports, in cooperation with airport authorities, local and state governments, and metropolitan planning authorities.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Research and Development
For the Fiscal Year Ended September 30, 2007
(Dollars in Thousands)

Expenses	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003
Applied Research	$ 102,782	$ 106,390	$ 103,659	$ 91,743	$ 29,406
Development	844	587	547	478	251
Administration	32,050	30,566	29,163	28,643	31,669
R&D Plant	4,217	3,821	5,287	4,230	2,903
Total	**$ 139,893**	**$ 141,364**	**$ 138,656**	**$ 125,094**	**$ 64,229**

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

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

The following are some of FAA's top FY 2007 research and development accomplishments.

- The Future En Route Workstation (FEWS) research program was designed on the principles of integrating currently independent automation tools, providing information when and where needed, and reducing the number of housekeeping tasks that controllers currently perform. The FEWS interface resulted in a near 50% reduction in the number of data entries that controllers must make with Display System Replacement and voice communications only.
- The R&D work in wake turbulence led to an approved change in air traffic control operation of closely spaced runways. The change will allow flight traffic to be accepted on closely spaced parallel runways under adverse weather conditions at Lambert-St. Louis International Airport.
- New pavement software has been developed and released to industry that improves the method of designing and evaluating airport pavement. The software is called FAARFIELD 1.0 or FAA Rigid and Flexible Iterative Elastic Layer Design. FAARFIELD 1.0 has the potential for large savings for airport authorities and FAA when undertaking airport pavement redesign efforts.
- A concept research program to examine the feasibility of using electronic flight data in Air Traffic Control Towers in place of the paper Flight Progress Strips led to the development of two prototype Electronic Flight Data Interfaces (EFDI). EFDI is designed to present only the information that tower controllers need for a

particular aircraft operation while still allowing access to the complete flight data set.

- The Airport Technology R&D Branch in cooperation with the Air Force Research Lab announced the completion of the New Large Aircraft (NLA) Fire Fighting Mockup. The largest live-fire mockup known to exist will be used to help develop fire fighting practices for NLAs like the Airbus A380 and the Boeing 747-8.
- The American Society of Testing and Materials (ASTM) has accepted a new standard titled "ASTM Standard Test Method D-7309-07 for Determining Flammability Characteristics of Plastics and Other Solid Materials Using Microscale Combustion Technology." The technology was developed in the Air Traffic Organization—Planning Office of Research and Technology Development to facilitate the development of ultra fire resistant aircraft interior materials.

REQUIRED SUPPLEMENTARY INFORMATION

U.S. Department of Tramsportation
FEDERAL AVIATION ADMINISTRATION
Supplementary Information
Deferred Maintenance
For the Fiscal Years Ended September 30
(Dollars in Thousands)

Category	Method	Asset condition*	Costs to return to acceptable condition				
			2007	2006	2005	2004	2003
Buildings	Condition assessment	4&5	$ 79,970	$ 74,751	$ 63,875	$ 53,359	$ 50,534
Other structures and facilities	Condition assessment	4&5	$ 25,254	$ 23,605	$ 19,984	$ 16,543	$ 29,785

* Condition Rating Scale: 4-—Poor; 5—Very Poor

Deferred maintenance is maintenance that was not performed when it should have been, or was scheduled to be performed but was delayed until a future period.

Information on FAA's deferred maintenance is based on condition assessment survey (annual inspection). Standards (orders) are provided for evaluating the fixed assets' condition. These standards are combined with FAA technicians' knowledge, past experiences, and judgment to provide the following:

- Minimum and desirable condition descriptions
- Suggested maintenance schedules
- Standard costs for maintenance actions
- Standardized condition codes

There have been no material changes to the standards in recent years. FAA recognizes maintenance expense as incurred. However, maintenance was insufficient during the past several years and resulted in deferred maintenance on Buildings and Other Structures and Facilities. FAA reports deferred maintenance only on assets with condition ratings of 4 and 5, in compliance with the Statement of Federal Financial Accounting Standard (SFFAS) Number 6, "Accounting for Property, Plant, and Equipment."

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Schedule of Budgetary Resources by Major Fund Type
As of September 30, 2007

	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities and Equipment	Trust Fund Research, Engineering, and Development	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
Budgetary Resources								
Unobligated balance brought forward and transfers	$ 39,713	$ 1,037,373	$ 28,805	$ 742,563	$ 159,302	$ 287,688	$ 9,778	$ 2,305,222
Recoveries of prior year obligations	177,493	56,976	2,984	-	2,393	51,213	-	291,059
Budget authority	8,691,480	2,481,346	130,243	-	-	8,374,217	48,508	19,725,794
Spending authority from offsetting collections	5,522	99,916	4	202,764	382,068	5,812,330	-	6,502,604
Nonexpenditure transfers, net	-	-	-	-	-	-	(46,331)	(46,331)
Temporarily not available	-	-	-	-	-	-	-	-
Permanently not available	(5,020,000)	-	(1,981)	-	-	(36,800)	-	(5,058,781)
Total Budgetary Resources	$ 3,894,208	$ 3,675,611	$ 160,055	$ 945,327	$ 543,763	$ 14,488,648	$ 11,955	$ 23,719,567
Status of Budgetary Resources								
Obligations incurred	$ 3,691,167	$ 2,557,905	$ 128,714	$ 5,701	$ 381,128	$ 14,200,297	$ 987	$ 20,965,899
Unobligated balances—available	6,264	1,055,933	26,510	999	162,635	95,428	-	1,347,769
Unobligated balances—not available	196,777	61,773	4,831	938,627	-	192,923	10,968	1,405,899
Total Status of Budgetary Resources	$ 3,894,208	$ 3,675,611	$ 160,055	$ 945,327	$ 543,763	$ 14,488,648	$ 11,955	$ 23,719,567
Change in Obligated Balances								
Obligated balance, net, beginning of period	$ 5,733,848	$ 1,689,580	$ 149,184	$ 8,296	$ 59,759	$ 853,843	$ -	$ 8,494,510
Obligations incurred	3,691,167	2,557,905	128,714	5,701	381,128	14,200,297	987	20,965,899
Gross Outlays	(3,877,723)	(2,513,372)	(152,724)	(5,021)	(375,121)	(13,892,574)	(985)	(20,817,520)
Recoveries of prior year obligations, actual	(177,493)	(56,976)	(2,984)	-	(2,393)	(51,213)	-	(291,059)
Change in uncollected customer payments from Federal sources	(1,812)	123,538	724	-	40,660	(1,745)	-	161,365
Obligated balance, net, end of period	$ 5,367,987	$ 1,800,675	$ 122,914	$ 8,976	$ 104,033	$ 1,108,608	$ 2	$ 8,513,195
Obligated balance, net, end of period								
Unpaid obligations	$ 5,368,043	$ 1,939,212	$ 125,741	$ 8,976	$ 146,065	$ 1,420,543	$ 2	$ 9,008,582
Uncollected customer payments from Federal sources	(56)	(138,537)	(2,827)	-	(42,032)	(311,935)	-	(495,387)
Total unpaid obligated balance, net end of period	$ 5,367,987	$ 1,800,675	$ 122,914	$ 8,976	$ 104,033	$ 1,108,608	$ 2	$ 8,513,195
Net Outlays								
Gross outlays	$ 3,877,723	$ 2,513,372	$ 152,724	$ 5,021	$ 375,121	$ 13,892,574	$ 985	$ 20,817,520
Offsetting collections	(3,709)	(223,452)	(727)	(202,764)	(422,729)	(5,810,588)	-	(6,663,969)
Distributed offsetting receipts	-	-	-	-	-	-	(103)	(103)
Net Outlays	$ 3,874,014	$ 2,289,920	$ 151,997	$ (197,743)	$ (47,608)	$ 8,081,986	$ 882	$ 14,153,448

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Schedule of Budgetary Resources by Major Fund Type
As of September 30, 2006
(Dollars in Thousands)

	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities and Equipment	Trust Fund Research, Engineering, and Development	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
Budgetary Resources								
Unobligated balance brought forward and transfers	$ 482,386	$ 968,088	$ 24,945	$ 564,296	$ 95,771	$ 221,078	$ 2,261	$ 2,358,825
Recoveries of prior year obligations	194,821	34,884	2,942	272	10,567	127,833	-	371,319
Budget authority	7,537,400	2,553,260	137,260	-	-	8,182,501	49,354	18,459,775
Spending authority from offsetting collections	847	97,477	457	183,997	455,522	483,797	-	1,222,097
Nonexpenditure transfers, net	-	-	-	-	-	19,621	(41,837)	(22,216)
Temporarily not available pursuant to public law	-	(25,400)	(1,380)	-	-	(55,410)	-	(82,190)
Permanently not available	(4,466,500)	-	-	-	-	(55,012)	-	(4,521,512)
Total Budgetary Resources	$ 3,748,954	$ 3,628,309	$ 164,224	$ 748,565	$ 561,860	$ 8,924,408	$ 9,778	$ 17,786,098
Status of Budgetary Resources								
Obligations incurred	$ 3,709,241	$ 2,590,936	$ 135,419	$ 6,002	$ 402,558	$ 8,636,720	$ -	$ 15,480,876
Unobligated balances available	834	934,673	24,409	400	141,108	107,887	-	1,209,311
Unobligated balances not available	38,879	102,700	4,396	742,163	18,194	179,801	9,778	1,095,911
Total Status of Budgetary Resources	$ 3,748,954	$ 3,628,309	$ 164,224	$ 748,565	$ 561,860	$ 8,924,408	$ 9,778	$ 17,786,098
Change in Obligated Balances								
Obligated balance, net, beginning of period	$ 6,062,824	$ 1,737,713	$ 157,889	$ 5,657	$ 27,137	$ 804,684	$ -	$ 8,795,904
Obligations incurred	3,709,241	2,590,936	135,419	6,002	402,558	8,636,720	-	15,480,876
Gross Outlays	(3,843,926)	(2,613,611)	(141,451)	(3,091)	(410,719)	(8,408,062)	-	(15,420,860)
Recoveries of prior year obligations, actual	(194,821)	(34,884)	(2,942)	(272)	(10,567)	(127,833)	-	(371,319)
Change in uncollected customer payments from Federal sources	530	9,426	269	-	51,350	(51,666)	-	9,909
Obligated balance, net, end of period	$ 5,733,848	$ 1,689,580	$ 149,184	$ 8,296	$ 59,759	$ 853,843	$ -	$ 8,494,510
Unpaid obligations	$ 5,732,092	$ 1,951,663	$ 152,734	$ 8,296	$ 142,451	$ 1,164,026	$ -	$ 9,151,262
Uncollected customer payments from Federal sources	1,756	(262,083)	(3,550)	-	(82,692)	(310,183)	-	(656,752)
Total unpaid obligated balance, net end of period	$ 5,733,848	$ 1,689,580	$ 149,184	$ 8,296	$ 59,759	$ 853,843	$ -	$ 8,494,510
Disbursements	$ 3,843,926	$ 2,613,611	$ 141,451	$ 3,091	$ 410,719	$ 8,408,062	$ -	$ 15,420,860
Collections, net of offsetting receipts	(1,376)	(106,902)	(726)	(183,997)	(506,871)	(432,133)	-	(1,232,005)
Net Outlays	$ 3,842,550	$ 2,506,709	$ 140,725	$ (180,906)	$ (96,152)	$ 7,975,929	$ -	$ 14,188,855

ADMINISTRATIVE SERVICES FRANCHISE FUND

Background

Public Law 104-205, "Department of Transportation and Related Agencies Appropriation Act, 1997," authorized the FAA to establish an Administrative Services Franchise Fund (Franchise Fund). The Franchise Fund is designed to create competition within the public sector in the performance of a wide variety of support services. It allows for the establishment of an environment to maximize the use of internal resources through the consolidation and joint-use of like functions and the recognition of economies of scale and efficiencies associated with the competitive offering of services to other government agencies.

The FAA's Franchise Fund is composed of several programs, within which it offers a wide variety of services. These services include accounting, travel, duplicating, multi-media, information technology, logistics and material management, aircraft maintenance, international training and management training. The Franchise Fund's major customers are FAA lines of business programs. Other customers include Department of Transportation (DOT) entities, non-DOT government agencies, and international government entities.

Description of Programs and Services

Several programs within the Franchise Fund are organized around an Enterprise Services Center (ESC) concept, designed to integrate the key components necessary to be a full service financial management provider. The efficiencies and economies of scale created by this integration offer the opportunity to compete for customers seeking a provider of financial management services. As new customers come on board, this further reduces the cost of providing the services by spreading the fixed cost of operations over a larger customer base. There are three components of the ESC, all falling within the single Franchise Fund:

- Enterprise System—configuration and support of application software and databases
- Financial Operations—transaction processing, financial reporting, and analysis services
- Information Technology—hosting, telecommunications, information system security, and end user support services

During FY 2005, OMB selected ESC as a Financial Management Center of Excellence (COE). As a COE, the ESC now has the ability to compete to provide financial management services for other government agencies. The ESC currently provides financial management services to all DOT agencies, the National Endowment for the Arts, Commodity Futures Trading Commission, Institute of Museum and Library Services, and the United States Government Accountability Office and also has several proposals out to other agencies.

In addition to being selected as a COE, the ESC was chosen by the FAA Administrator to serve as the consolidated provider of all financial management services for all FAA organizations. The consolidation started in FY 2004 and was completed in August 2006. The ESC committed to providing an improved level of service, meeting all Joint Financial Management Improvement Program (JFMIP) requirements, while at the same time reducing overall expenses by 10%, which will be realized in FY 2008.

The Franchise Fund also includes the following program areas:

The **Aircraft Maintenance and Engineering Group** in the office of Aviation System Standards is located at the Mike Monroney Aeronautical Center (Aeronautical Center) in Oklahoma City. It provides total aircraft support including maintenance, quality assurance, and overall program management. This service includes preventative as well as repair/overhaul and/or

modification requirements and reliability and maintainability studies. The Aircraft Maintenance and Engineering Group can provide full or partial support depending on customer requirements, from short-term preventative maintenance or one time engineering tasks to more involved activities such as a full complement of maintenance services with quality assurance and engineering support.

The **Center for Management and Executive Leadership** (CMEL), located at Palm Coast, Florida, provides non-technical training in support of the FAA mission. The center designs and delivers face-to-face centralized training both onsite and at field locations. Students also complete more than 5,000 distance learning programs each year. CMEL is fully accredited with commendations by the Commission on Occupational Education, and the American Council on Education has determined that CMEL courses are worthy of upper division college credit. The Federal, professional, and local communities also recognize CMEL as a premier resource for leadership and teambuilding training.

The **International Training Division** (ITD) in the FAA Academy at the Aeronautical Center in Oklahoma City delivers technical assistance and training to enhance international aviation safety and security while promoting U.S. aviation system technologies, products, and services overseas. The products and services of the ITD include training program management, instructional services, training design/development/revision, technical training evaluations, and consulting services tailored to meet specifically defined needs of the FAA and its international customers.

The **FAA Logistics Center**, also located at the Aeronautical Center, provides comprehensive logistics support and a highly sophisticated level of maintenance and repair services to ensure the safety of the flying public and to satisfy the critical needs of the national airspace system and related requirements. Services include materiel management (e.g., provisioning, cataloging, acquisition, inventory management, inventory supply), reliable and cost-effective depot-level repair of line replaceable units, life cycle and performance cost analysis, logistics automation, distribution services, disposal of items no longer required, and technical support in the repair and maintenance of national airspace and related equipment.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
Condensed Information
ASSETS, LIABILITIES, and NET POSITION
(Dollars in Thousands)

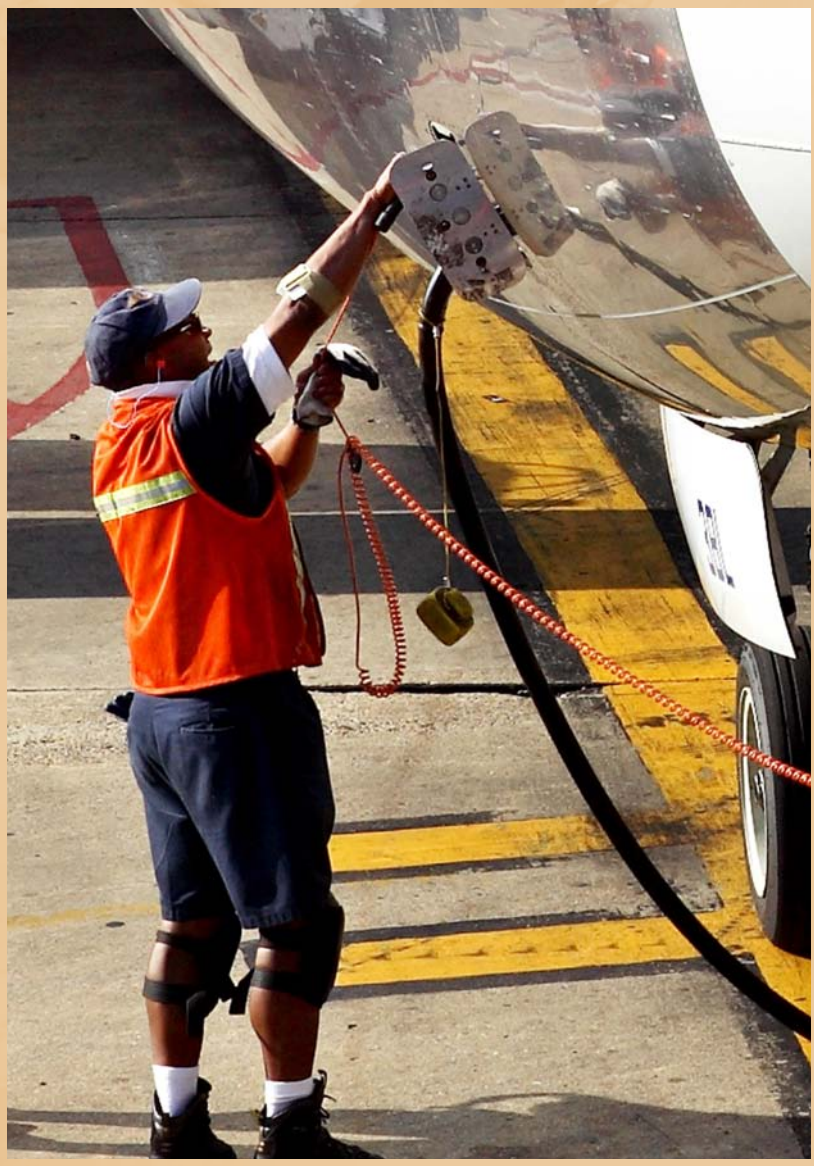
	As of September 30	
	2007	2006
Assets		
Fund balance with Treasury	$ 266,809	$ 223,694
Accounts receivable, net	1,875	19,221
Inventory and related property, net	422,419	382,898
General property, plant, and equipment, net	9,838	9,649
Other	263	240
Total assets	$ 701,204	$ 635,702
Liabilities		
Accounts payable	$ 26,000	$ 20,370
Advances from others	171,038	174,989
Employee related	13,222	16,087
Other	10,367	8,231
Total liabilities	220,627	219,677
Net position		
Cumulative results of operations	480,577	416,025
Total net position	480,577	416,025
Total liabilities and net position	$ 701,204	$ 635,702

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
Condensed Information
REVENUES AND EXPENSES
(Dollars in Thousands)

		For the years ended September 30	
		2007	2006
Enterprise Services Center	Revenues	$ 99,971	$ 108,838
	Expenses	111,627	114,614
	Profit/(loss)	(11,656)	(5,776)
Aircraft Maintenance and Engineering Group	Revenues	42,154	40,916
	Expenses	52,017	46,310
	Profit/(loss)	(9,863)	(5,394)
FAA Academy	Revenues	11,730	4,224
	Expenses	11,367	6,069
	Profit/(loss)	363	(1,845)
FAA Logistics Center	Revenues	297,673	257,232
	Expenses	259,636	298,268
	Profit/(loss)	38,037	(41,036)
Total Consolidated	Revenues	451,528	411,210
	Expenses	434,647	465,261
	Profit/(loss)	16,881	(54,051)

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
Condensed Information
FINANCING SOURCES AND NET POSITION
(Dollars in Thousands)

	Cumulative results of operations	
	2007	2006
Beginning balance, net position	$ 416,025	$ 435,211
Financing sources		
Transfers-in/(out) without reimbursement	(11,594)	(21,638)
Imputed financing from costs absorbed by others	59,265	56,503
Total financing sources	47,671	34,865
Profit (loss)	16,881	(54,051)
Ending balance, net position	$ 480,577	$ 416,025



Ground crews prepare a plane for takeoff at Ronald Reagan Washington National Airport.
Credit: Jon Ross, FAA Image Library

OTHER ACCOMPANYING INFORMATION

Inspector General's Top Management Challenges for FY 2008

Near each fiscal year end, the DOT Office of Inspector General (OIG) identifies and reports the top challenges that management will face in the following fiscal year. This report of top challenges is prepared for the DOT as a whole, and includes certain challenges that pertain specifically to FAA. At the time of publication of FAA's FY 2007 Performance and Accountability Report, the OIG's report had not been finalized. Therefore, we have included excerpts of the draft that pertain to FAA.

OIG Top Challenges for FY 2008

- Addressing Long- and Short-Term Challenges for Operating, Maintaining, and Modernizing the National Airspace System
  - Hiring and Training Nearly 15,000 Controllers Over the Next 10 Years
  - Keeping Existing Modernization Projects on Track
  - Reducing Cost, Schedule, and Technical Risk With NextGen
  - Maintaining FAA's Aging Air Traffic Control Facilities
  - Properly Accounting for Capital Investment Projects
- Reducing Congestion in America's Transportation System
  - Reducing Delays, Improving Airline Customer Service, and Meeting the Anticipated Demand for Air Travel in the Near Term
  - Keeping Planned Infrastructure and Airspace Projects on Schedule To Relieve Congestion and Delays
  - Leading Stakeholders
  - Developing Innovating Funding Solutions for Infrastructure Needs
- Continuing to Make a Safe Aviation System Safer
  - Taking Proactive Steps To Improve Runway Safety in Light of Recent Serious Incidents
  - Ensuring Consistency and Accuracy in Reporting and Addressing Controller Operational Errors
  - Strengthening Risk-Based Oversight Systems for Air Carriers, External Repair Facilities, and Aircraft Manufacturers
  - Maintaining a Sufficient Number of Inspectors
  - Strengthening Oversight of the Airman Medical Certification Program
- Strengthening the Protection of Information Technology Resources, Including the Critical Air Traffic Control System
  - Enhancing Air Traffic Control System Security and Continuity Planning
- Managing Acquisition and Contract Operations More Effectively To Obtain Quality Goods and Services at Reasonable Prices
  - Increasing Incurred-Cost Audits of Procurement Contracts To Reduce Unallowable Charges
  - Developing Strategies for the Future Acquisition Workforce
  - Fostering High Ethical Standards Throughout the Department and Its Contracting Programs To Maintain the Public Trust

Management Response

We agree that FAA faces significant challenges in aviation and, as outlined in FAA's FY 2007 PAR, we have aligned our resources and performance targets so that we can be successful. The challenges stated above will be met by focusing on improving safety, increasing capacity, and achieving organizational excellence.

Making a safe aviation system even safer is an ongoing challenge. We will be diligent in our efforts to continue to reduce runway incursions and operational errors. Our risk-based approach to pursuing targeted improvements on high risk areas will ensure we focus our limited resources on the highest risks. We have made significant strides in our recruitment efforts to attract and retain candidates for a highly technical workforce, and we intend to keep improving our outreach efforts.

Reducing delays while keeping the system safe is a must. We are on track in planning and implementing new runway projects and have begun more significant communication with our aviation stakeholders to help resolve delays and improve service to the flying public. We continue to work with DOT to meet our funding challenges and ensure planned infrastructure improvements remain on course.

Pursuing our organizational excellence goals directly supports many challenges cited by the OIG. Our people are our most valuable resource. Hiring and training the next generation of air traffic controllers is key to our success, and we are aggressively pursuing our hiring goals. Equally important, we must ensure that there is a pipeline of candidates to support our acquisition workforce needs now and well into the future. To modernize the NAS requires adept management of highly complex, multi-year initiatives, like NextGen. This initiative requires multiple contract vehicles to successfully deploy the technology that keeps our aviation system the safest in the world. We will manage and close out our contracts on time, capitalize the assets they produce in a timely manner, ensure the information technology used is secure, and keep our facilities that house these assets in good condition. All of this must be managed with the highest of ethical standards. These challenges are all significant, but we are prepared to measure our performance routinely and hold ourselves accountable to the American taxpayers.

Summary of Audit Results and Management Assurances

Financial Statements Audit Summary

Table 1 is a summary of the results of the independent audit of FAA's consolidated financial statements, as well as information on the material weakness reported by FAA's auditors in connection with the FY 2006 and FY 2007 audits.

TABLE 1. SUMMARY OF FINANCIAL STATEMENTS AUDIT

Audit Opinion	FY 2007—unqualified		
	FY 2006—qualified on originally stated financial statements; revised to unqualified on restated financial statements		
Restatement	Yes - Refer to Note 18 of the financial statements		
Material Weakness	**FY 2006—number of material weaknesses**	**Revised and Reissued**	**FY 2007—number of material weaknesses**
Timely Processing of Transactions and Accounting for Property, Plant, and Equipment, Including the Construction in Progress (CIP) Account.	1[1]	1	1

[1] In our FY 2006 PAR, our auditors titled the material weakness "Timely Processing of Transactions and Accounting for the Construction in Progress Account." In FY 2007, the material weakness was expanded and retitled as shown on this line.

Management Assurances Summary

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

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES			
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)			
Statement of Assurance	Qualified statement of assurance[1]		
Material Weakness	**FY 2006—number of material weaknesses**	**Revised and Reissued**	**FY 2007—number of material weaknesses**
Timely Processing of Transactions and Accounting for Property, Plant, and Equipment, Including the Construction in Progress (CIP) Account.	1[2]	1	1
Total Material Weaknesses	**1**	**1**	**1**
Effectiveness of Internal Control over Operations (FMFIA § 2)			
Statement of Assurance	Qualified statement of assurance [1]		
Material Weakness	**FY 2006—number of material weaknesses**	**Revised and Reissued**	**FY 2007—number of material weaknesses**
Timely Processing of Transactions and Accounting for Property, Plant, and Equipment, Including the Construction in Progress (CIP) Account.	1[2]	1	1
Total Material Weaknesses	**1**	**1**	**1**
Conformance with Financial Management System Requirements (FMFIA § 4)			
Statement of Assurance	Systems conform to requirements		
Non-Conformances	**FY 2006—number of material weaknesses**	**Revised and Reissued**	**FY 2007—number of material weaknesses**
No Non-Conformances	0	0	0
Compliance with Federal Financial Management Improvement Act (FFMIA)			
		Agency	**Auditor**
Overall Substantial Compliance		No	No
1. System Requirements		Yes	
2. Accounting Standards		No[3]	
3. USSGL at Transaction Level		No[4]	

[1] FAA's Statement of Assurance is qualified due to a limitation of the scope of our assessment. In FY 2007, we completed a 2-year implementation schedule, in which we assessed the first 6 of 12 business processes during FY 2006, and the latter 6 in FY 2007.

[2] In our FY 2006 PAR, our auditors titled the material weakness "Timely Processing of Transactions and Accounting for the Construction in Progress Account." In FY 2007, the material weakness was expanded and retitled as shown on this line. FAA has one material weakness; it pertains to both financial reporting and operations components of FMFIA § 2.

[3] At the time of publication of our FY 2007 financial statements, FAA restated prior year (FY 2006) financial statements to correct the effects of errors in Construction in Progress. Thus, FAA's auditors consider this to be non-compliance with FFMIA accounting standards.

[4] FAA currently does not process "prior year recoveries" at the transaction level.

Improper Payment Information Act of 2002

The Improper Payments Information Act of 2002 and OMB Circular A-123 Appendix C guidance require Federal agencies to review all programs and activities annually, identify those that may be susceptible to significant erroneous payments, and determine an annual estimated amount of erroneous payments made in those programs.

FAA reports its progress on reducing erroneous payments to both the President and the Congress. Our FY 2007 review did not identify any programs or activities at risk for "significant erroneous payments" in accordance with OMB's criteria (i.e., programs with erroneous payments exceeding both $10 million and 2.5% of program payments). (Refer to the President's Management Agenda section, page 26, for more information).

With FAA's approval of GPS-style displays in the cockpit, today's cockpit, pictured here, may soon look very different. In addition to looking out their windshield to see what runway or taxiway they are on, pilots will also use the GPS monitors to view their actual position ("own ship") on the airport surface. This is especially important at night, in poor weather, or when the crew is unfamiliar with the airport layout.
Credit: FAA Image Library

GLOSSARY OF ACRONYMS

ACRONYM	NAME
AAR	Airport Arrival Rates
AATF	Airport and Airway Trust Fund
ABA	Office of the Assistant Administrator for Financial Services/ Chief Financial Officer
ACSI	American Customer Satisfaction Index
ADR	Airport Departure Rates
ADS-B	Automatic Dependent Surveillance–Broadcast
AEDT	Aviation Environmental Design Tool
AFSM	Alaska Flight Service Modernization
AGA	Association of Government Accountants
AHR	Human Resource Management
AIP	Airport Improvement Program
AIRE	Atlantic Interoperability Initiative to Reduce Emissions
AMS	Acquisition Management System
ARC	Regions and Center Operations (FAA staff offices)
ARINC	Aeronautical Radio Incorporated
ARP	Airports (FAA line of business)
ARTCC	Air Route Traffic Control Center
ASDE-X	Airport Surface Detection Equipment Model X
ASH	Security and Hazardous Materials
ASPM	Aviation System Performance Metrics
ASQP	Air Service Quality Performance
AST	Commercial Space Transportation (FAA line of business)
ASTM	American Society of Testing and Materials
ASV	Annual Service Volume
ATC	Air Traffic Control (FAA staff offices)
ATCSCC	Air Traffic Control System Command Center
ATO	Air Traffic Organization (FAA line of business)
ATOP	Advanced Techniques and Oceanic Procedures
ATOS	Air Traffic Oversight System
AVS	Aviation Safety (FAA line of business)
BASA	Bilateral Aviation Safety Agreement
BCP	Business Continuity Plan
BPA	Blanket Purchase Agreement
BTS	Bureau of Transportation Statistics
CAAS	Civil Aviation Authority of Singapore
CAS	Cost Accounting System
CAST	Commercial Aviation Safety Team
CEAR	Certificate of Excellence in Accountability Reporting
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act of 1990
CFR	Code of Federal Regulations
CIO	Chief Information Officer
CIP	Construction in Progress
CIT	Capital Investment Team
CMEL	Center for Management and Executive Leadership
COE	Center of Excellence

ACRONYM	NAME
ConOps	Concept of Operations
CR	Continuing Resolution
CRM	Crew Resource Management
CSIRC	Cyber Security Incident Response Center
CSRS	Civil Service Retirement System
DGCA	Directorate General of Civil Aviation
DNL	Day-Night Sound Level
DOL	Department of Labor
DOT	Department of Transportation
EA	Enterprise Architecture
EAS	Employee Attitude Survey
EFB	Electronic Flight Bags
EFDI	Electronic Flight Data Interfaces
ESC	Enterprise Services Center
ETMS	Enhanced Traffic Management System
EVM	Earned Value Management
F&E	Facilities and Equipment
FAA	Federal Aviation Administration
FAARFIELD	FAA Regional Flexible Interactive Elastic Layered Design
FACT	Future Airport Capacity Task
FAE	FAA's Acquisition Executive
FAR	Federal Acquisition Regulation
FBWT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FEWS	Future En Route Workstation
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FRPP	Federal Real Property Profile
FSAS	Facility Safety Assessment System
FTI	FAA Telecommunications Infrastructure
GAO	Government Accountability Office
GETS	Grievance Electronic Tracking System
GPS	Global Positioning System
GPT	Grievance Processing Time
GSA	General Services Administration
ICAO	International Civil Aviation Organization
IG	Inspector General
IPA	Implementation Procedures for Airworthiness
IPIA	Improper Payment Information Act
IRS	Internal Revenue Service
ITD	International Training Division
ITEB	IT Executive Board
IWP	NextGen Integrated Work Plan
JFMIP	Joint Financial Management Improvement Program
JPDO	Joint Planning and Development Office

ACRONYM	NAME
JRC	Joint Resources Council
KCASA	Korean Civil Aviation Safety Authority
LDR	Labor Distribution Reporting
MAGENTA	Model for Assessing Global Exposure to the Noise of Transport Aircraft
MCP	Mission-Critical Positions
MMS	Maintenance Management System
NAEP	National Acquisition Evaluation Program
NAS	National Airspace System
NASA	National Aeronautics and Space Administration
NASPAS	National Airspace System Performance Analysis System
NATCA	National Air Traffic Controllers Association
NextGen	Next Generation Air Transportation System
NEXTOR	National Center of Excellence for Aviation Operations Research
NEO	Network-Enabled Operations
NIST	National Institute of Standards and Technology
NLA	New Large Aircraft
NMW	No Material Weaknesses
NODB	National Outage Database
NOP	National Offload Program
NPRM	Notice of Proposed Rulemaking
NTSB	National Transportation Safety Board
OAG	Official Airline Guide
OAI	Office of Airline Information
OE	Operational Error
OEDP	Operational Error Detection Patch
OEP	Operational Evolution Partnership
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSH	Occupational Safety and Health
OSI	Organizational Success Increase
OST	Office of the Secretary of Transportation
OTA	Office of Tax Analysis
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PBN	Performance-Based Navigation
PMA	President's Management Agenda

ACRONYM	NAME
POAM	Plan of Action and Milestones
PP&E	Property, Plant, and Equipment
PRISM	Procurement Acquisition Management System
R&D	Research and Development
R,E,&D	Research, Engineering, and Development
REMS	Real Estate Management System
RI	Runway Incursion
RNAV	Required Area Navigation
RNP	Required Navigation Performance
RSAT	Runway Safety Action Team
RSSI	Required Supplementary Stewardship Information
RTAP	Runway Template Action Plan
RVSM	Reduced Vertical Separation Minima
RWSL	Runway Status Lights
SAGE	System for Assessing Aviation Global Emissions
SAVES	Strategic Sourcing for the Acquisition of Various Equipment and Supplies
SC	Separation Conformance
SE	Safety Enhancement
SFFAS	Statement of Federal Financial Accounting Standards
SID	Standard Instrument Departure
SMIS	Safety Management Information System
SMS	Safety Management System
SOP	Standard Operating Procedures
SPIRE	Simplified Program Information Reporting and Evaluation
SRM	Safety Risk Management
STAR	Standard Terminal Automation Route
STI	Short Term Incentive
SWIM	System Wide Information Management
TAF	Terminal Area Forecast
TARP	Traffic Analysis Review Program
TCIRC	Transportation Cyber Incident Response Center
TCWF	Terminal Convective Weather Forecast
TRACON	Terminal Radar Approach Control
TSO	Technical Standard Order
VOR	Very High Frequency Omnidirectional Range
WAAS	Wide-Area Augmentation System

ACKNOWLEDGMENTS

This *FY 2007 Performance and Accountability Report* is a collaborative endeavor on the part of many FAA employees and contractors. We would like to acknowledge and thank them for their hard work and commitment in successfully preparing this report and supporting the audit of the financial statements.

WE WELCOME YOUR COMMENTS!

Thank you for your interest in FAA's *FY 2007 Performance and Accountability Report.* We welcome your comments on how we can make this report more informative for our readers.

Please send your comments to

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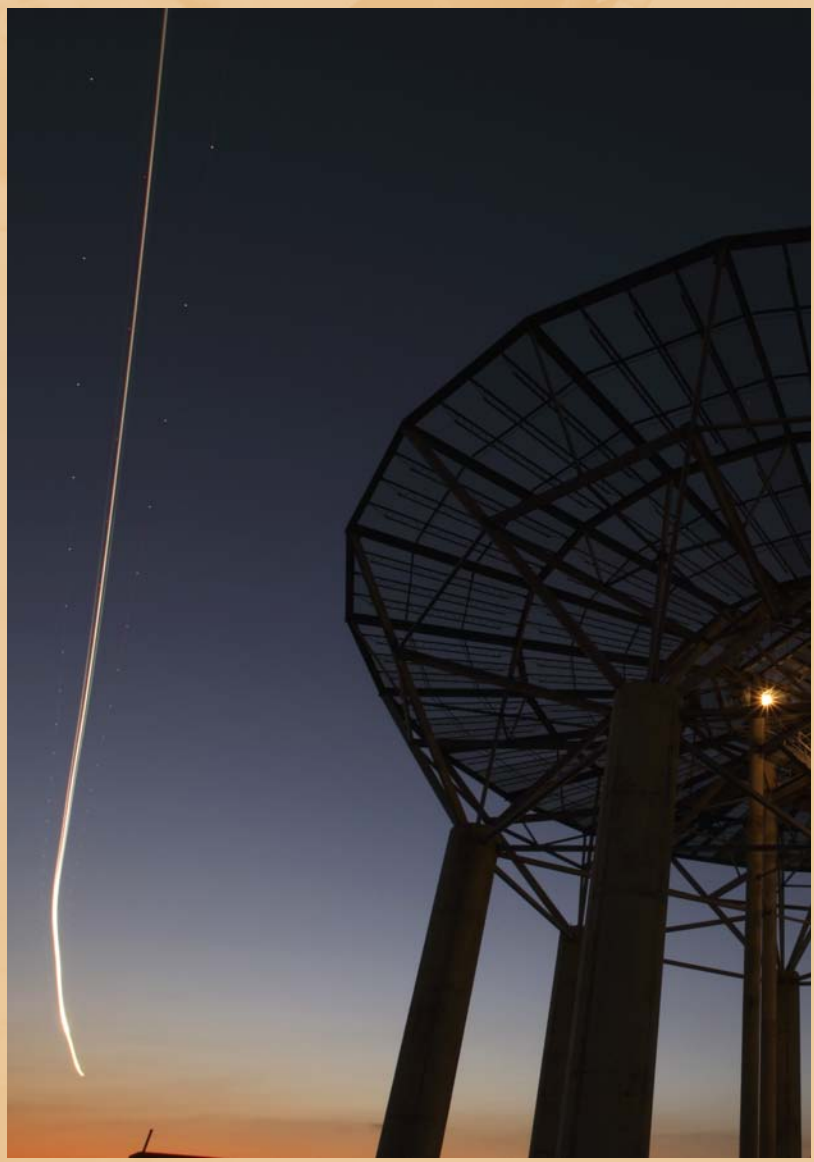
This report and reports from prior years are available on the FAA website at **www.faa.gov/about/plans_reports/**. For a printed copy, call (202) 267-3018 or email Allison.Ritman@faa.gov.



With the implementation of new satellite-based technologies, FAA is assessing the discontinuation of VOR (Very High Frequency Omnidirectional Range) ground-based navigational aids, such as the one pictured here, which are currently used to assist with airport approaches and departures. VOR radar technology was introduced after World War II.
Credit: Jon Ross, FAA Image Library

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