Federal Aviation Administration

Evolving Technology. Advancing Aviation.

FY 2010
PERFORMANCE AND ACCOUNTABILITY REPORT

The FAA provides a workforce of over 48,500 professionals to operate and maintain the most complex air traffic control system in the world. These include over 15,000 controllers who manage and ensure ever-increasing levels of safety, and over 6,000 technicians who maintain the equipment in the NAS to extremely high levels of operability.

Credit: FAA Image Gallery

On the cover—With air traffic expected to increase 50 percent by 2025, the FAA is in the midst of a comprehensive overhaul of the national airspace system (NAS). This NAS of the future—the Next Generation Air Transportation System, or NextGen—will combine cutting-edge technologies and programs for air traffic monitoring, communications, navigation, and information sharing. NextGen will allow passengers to fly safely with fewer delays and less congestion, while reducing aviation's environmental impact.

Credit: FAA Image Gallery

FEDERAL AVIATION ADMINISTRATION
FY 2010 PERFORMANCE AND ACCOUNTABILITY REPORT

Our Mission

Our continuing mission is to provide the safest, most efficient aerospace system in the world.

Our Vision

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

Our Values

Safety is our passion.

We work so all air and space travelers arrive safely at their destinations.

Excellence is our promise.

We seek results that embody professionalism, transparency, and accountability.

Integrity is our touchstone.

We perform our duties honestly, with moral soundness, and with the highest level of ethics.

People are our strength.

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

Innovation is our signature.

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

FAA AT A GLANCE

Established	1958
Headquarters	800 Independence Avenue, SW Washington, DC 20591 **www.faa.gov**
FY 2010 Budget (enacted)	$15.992 billion
Total Employees	48,594
Headquarters	5,399 employees
Regional and Field Offices	38,278 employees
Technical Center Atlantic City, NJ	1,157 employees
Aeronautical Center Oklahoma City, OK	3,760 employees
FY 2010 Passengers on U.S. Carriers	712.2 million (*estimate*)
FY 2010 Tower Operations	51.3 million arrivals and departures (*estimate*)

FOREWORD

The Federal Aviation Administration (FAA) is part of the U.S. Department of Transportation (DOT). By directives, the Office of Management and Budget (OMB), which implements the Chief Financial Officers Act of 1990 (CFO Act), requires us to prepare financial statements separate from those of the DOT. Key FAA data and information are provided to the DOT and consolidated into their corresponding reports. Although we are not required to prepare a separate Performance and Accountability Report (PAR), we recognize that to demonstrate accountability we should present performance, management, and financial information using the same statutory and guidance framework. To demonstrate that accountability, since fiscal year (FY) 2002 we have elected to produce our own PAR. In some cases, however, we may depart from the format required of CFO Act agencies.

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

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

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This report and reports from prior years are available on the FAA Web site at www.faa.gov/about/plans_reports/#performance.

Testing is key to getting NextGen technologies up and running in the NAS. Researchers at the FAA's Technical Center use the NextGen Integration and Evaluation Capability (NIEC) research platform to test NextGen technologies in real-time simulations.

Credit: FAA Image Gallery

A MESSAGE FROM THE ADMINISTRATOR

The task of taking U.S. aviation to the next level—even though it's already the safest and most efficient aerospace system in the world—requires cutting-edge technologies. NextGen, the FAA's Next Generation Air Transportation System, is the answer. Our wide-ranging overhaul of the entire national air transportation system remains in high gear. (For more about NextGen, see the related story on pages 4–5).

J. Randolph Babbitt
Administrator

NextGen reaches well beyond the Department of Transportation. NextGen is not just one system or technology—it's a combination of many initiatives, in different phases of maturity and adoption. Because of this, NextGen is unique in its management and execution, requiring an unprecedented degree of integration and coordination across all FAA lines of business and with both Federal and commercial partners. The NextGen Management Board, chaired by the Deputy Administrator, includes representatives from key lines of business and coordinates the efforts of all Government organizations, labor unions, and other key stakeholders.

The real key to NextGen is not just in the structure that administers it but in the charting of a realistic path, including the phased implementation of technologies that will have short-term benefits while seeding the ground for longer-term transformations. To make sure the effort stays focused and on track, we continuously examine NextGen initiatives to keep those that can have an immediate effect front and center. This enables us to upgrade our current aviation system and serve as a bridge to future capabilities. This prioritization includes setting clear targets and goals to measure progress.

FY 2010 was a year of successes and a time to prepare for the challenges ahead. At the FAA, we remained committed to our focus on safety, greater capacity, international leadership, and organizational excellence. NextGen plays a key role in each of these areas, and in our drive to be good environmental stewards.

FY 2010 HIGHLIGHTS

- **Safety.** Safety is the core of our mission. The FAA is committed to pushing the bar higher by developing new strategies, such as a safety management system (SMS). An SMS is an approach to detecting safety risks before they result in accidents, rather than learning from accident data after-the-fact. In an industry with so few accidents, this approach is essential to making the skies even safer than they are today. Three of our major lines of business have completed SMS implementation. As part of our continued response to the 2009 Airline Safety and Pilot Training Action Plan initiatives, we set an aggressive timeline for developing a science-based Notice of Proposed Rulemaking (NPRM) on flight and duty time limitations and rest requirements to manage pilot fatigue, a key risk factor. We are fast tracking a proposal for a new rule that will address the need for pilots to get adequate rest.
- **Capacity.** NextGen will reduce congestion and improve efficiency to better meet projected demand in an environmentally sound manner. While NextGen is being phased in, the FAA is using funds from the American Recovery and Reinvestment Act of 2009 (ARRA) to improve the current infrastructure. This money goes directly to address immediate needs while being an important shot in the arm to the Nation's economy. Simply, ARRA puts people back to work. The FAA's ARRA investments include $1.1 billion for improvements to runways and terminals and $200 million for upgrades to air traffic control towers, power systems, and lighting.

- **International Leadership.** We continue to make strides in global stewardship with a robust international technical assistance and training program. This fiscal year, we worked to develop international aviation leaders and to secure funding for 11 development projects. Much of the funding came from third-party sources, allowing us to spread our resources—and our global reach—even further. In January 2010, we dispatched a portable, temporary control tower to the Port-au-Prince International Airport at the Haitian government's request as part of earthquake relief efforts. This year, NextGen expanded into the North Pacific and Central/South Asia with signing commitments from Japan and Singapore to join the Asia and Pacific Initiative to Reduce Emissions (ASPIRE).
- **Organizational Excellence.** We exceeded our staffing goal for air traffic controllers by 0.03 percent and maintained our aviation safety workforce at a level slightly above our target of 7,403 employees. We filled 82 percent of our job announcements within 45 days, exceeding our FY 2009 results. We implemented the Program for Emerging Leaders to develop prospective managers, and we're training close to 300 senior employees per year through our executive-level leadership training initiatives. By expanding subsidies, we increased use of FAA child care centers, helping to contribute to better employee morale and engagement. In a key new workforce acquisition strategy, we participated in job fairs to recruit applicants from the National Aeronautics and Space Administration (NASA) space shuttle program for FAA technical positions. As the shuttle program winds down, these highly skilled technicians could play a critical role for aviation as we transition to NextGen technologies and increase our commercial space transportation activities.
- **NextGen.** We continue to move aggressively to deploy components of NextGen. In a major milestone, we were given the green light for full-scale nationwide deployment of the satellite-based surveillance system called Automatic Dependent Surveillance-Broadcast (ADS-B). This technology gives both pilots and air traffic controllers more accurate information on the exact location of aircraft to keep them safely separated in the sky and on the runways. In FY 2010, ADS-B services were deployed in the Gulf of Mexico, southern Florida, Louisville, Philadelphia, and Juneau. More and more airports are also implementing NextGen satellite-based navigation approaches for safer and more efficient aircraft landings.
- **Environmental Responsibility.** The environment also remained a focus for us this year. We continued efforts to reduce aviation's environmental impacts by launching CLEEN—the Continuous Lower Energy, Emissions, and Noise program. A $125 million program, CLEEN will develop NextGen aircraft and engine technologies and support the transition to renewable jet fuels to meet goals such as emissions and noise reductions. We also cosponsored the efforts of the Commercial Aviation Alternative Fuels Initiative (CAAFI) to secure international approval of standards for a broad range of synthetic non-petroleum jet fuels.

FUTURE CHALLENGES

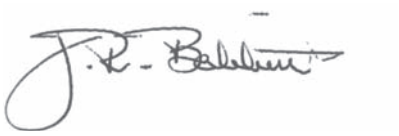
- **New Workforce Realities.** We know that NextGen demands new skill sets and competencies. But how do we train our talent for a system that does not yet exist? We need to begin as soon as possible to identify and map the competencies required of the next generation aviation workforce. We will also need to prepare the existing workforce for the cultural transformation that NextGen brings with it, as certain skill sets are de-emphasized and others become more critical than they were previously. Helping the workforce adapt to the new realities will be critical to ensuring a smooth transition to a new way of doing business. (See related story on page 8.)
- **Taking NextGen to the Next Level.** NextGen is a sprawling and complex initiative with many players. The price tag is substantial, and even though some benefits will be realized in the near term, the full benefits won't be realized for some time. To maximize the value of the public's dollar and maintain momentum and support for NextGen, we are developing flexible strategies to manage it effectively and efficiently. We will also need to maintain the cooperation and involvement of industry in future NextGen planning. We are working to prioritize NextGen technologies and practices that can have a near-term impact on the safety and capacity of air travel and can help us refine mid- and long-term implementation plans.

- **Commercial Space Flight.** The FAA has licensed eight domestic spaceports for use in the private sector. As the NASA space shuttle program winds down, the Nation will increasingly rely on the commercial sector to take over orbital flights for activities such as space station maintenance. Commercial space travel presents an entirely new set of challenges in terms of safety and regulation.

Our FY 2010 PAR provides a detailed accounting of our performance and financial management to both the flying public and the aviation industry. Our strategic plan—the *Flight Plan*—focuses our performance on the top 31 agency targets that position us to meet the future successfully. We achieved 28 out of the 31 goals listed in the *Flight Plan*.

We are proud to have received an unqualified opinion with no material weakness from our auditors on our FY 2010 financial statements. Internally, we assess the vulnerability of our programs and systems through the Federal Managers' Financial Integrity Act (FMFIA) of 1982. I am pleased to report that, taken as a whole, the management controls and financial management systems in effect from October 1, 2009, through September 30, 2010, provide reasonable assurance that the objectives of both sections 2 and 4 of FMFIA are being met. Effective management controls are in place and our financial systems conform to Government-wide standards. We issued an unqualified statement of assurance and can state that the financial data is reliable and complete.

This Nation stands on the verge of a new era in aviation. We recognize that such an ambitious and expensive undertaking invites close scrutiny, and we are committed to ensuring transparency and accountability as we move forward. To be good stewards of the money entrusted to us by Congress, we know that we must be efficient and provide an exceptional return on the taxpayer's investment. This report is a clear indication that we take this responsibility very seriously.



J. Randolph Babbitt
Administrator
November 8, 2010

NextGen: A New Way to Fly

Our national airspace system is one of the largest and safest in the world. It's also the busiest: in FY 2010, more than 700 million passengers flew on U.S. air carriers, and at any given moment there are about 5,000 planes in the air. With air traffic expected to increase 50 percent by 2025 and flight delays already causing disruptions in service and lost productivity at the current capacity, a revamped system is needed to accommodate future growth. This system—the Next Generation Air Transportation System, or NextGen—will let passengers fly safely with fewer delays and less congestion, while reducing aviation's environmental impact.

WHAT IS NextGen?

- NextGen is a comprehensive overhaul of our national airspace system (NAS). It's a combination of new technologies and programs for air traffic monitoring, communications, navigation, and information sharing.
- A major component of NextGen is the move from radar-based technology to satellite technology—like the Global Positioning System (GPS) in our cars. These new technologies get important navigation information to pilots in the air and controllers on the ground in real time.

Credit: FAA Image Gallery

HOW WILL NextGen TRANFORM AIR TRAVEL?

- Making electronic information immediately available allows for more precise flight paths and more efficient use of the airspace. It helps pilots and controllers guide planes during bad weather or in mountainous terrain or adjust routes ahead of time, avoiding major delays.
- With more precise navigation, planes can fly closer together on more direct routes. They take off and land closer together, as well. This allows airports to use their space more efficiently and gets more planes in the sky to meet the growing demand for air travel.
- More efficient flight paths reduce fuel costs and consumption. NextGen also calls for alternative fuels that produce less carbon emissions and equipment that produces less noise.

WHY DOES NextGen MATTER?

- **NextGen will be a better way of doing business.** Travel will be more predictable because there will be fewer delays, less time sitting on the tarmac or holding in the air, and more flexibility to get around weather problems.
- **NextGen will help us be even more proactive about safety.** Advanced safety management approaches and data sharing will help us better predict risks and identify and resolve hazards.
- **NextGen will reduce aviation's environmental footprint.** With alternative fuels, advanced equipment and operational procedures, and more precise flight paths, flying will be quieter, cleaner, and more efficient.

- **NextGen will help strengthen the economy.** The Nation's economy depends on aviation. Flight delays cost money. NextGen will provide a more cost-efficient way to handle the growing demands of air travel, and will help communities make better use of their airports to attract new jobs and expand local businesses.
- **NextGen will enhance our national security.** The new technologies will give the military, the Department of Homeland Security, and the FAA more sophisticated means of monitoring our airspace. Alternative fuels will help us shore up our Nation's aviation fuel supply while helping to reduce greenhouse gas emissions.

Credit: FAA Image Gallery

HOW IS NextGen USED TODAY?

On the Ground

- In an early example of how NextGen will leverage the capabilities of existing systems to bring new benefits to air transportation, the safety technology **Airport Surface Detection Equipment-Model X (ASDE-X)** has been coupled with NextGen's **System Wide Information Management System (SWIM)** to share surface data with both FAA traffic systems and our major carriers. This sharing has lead to improved planning and surface management from gate to runway across the airport surface. With ASDE–X fully operational at more than 30 airports, this information sharing is available for most of our major airports.

In the Air

- **Automatic Dependent Surveillance-Broadcast (ADS-B)** uses GPS satellite signals to give pilots and air traffic controllers more accurate information on the exact location of aircraft. Information about air traffic, local weather, and geography is delivered directly to the cockpit and to controllers at the same time and displayed on a moving map. This allows planes to safely fly closer together and provides navigation coverage in areas radar cannot reach, like the Gulf of Mexico. ADS-B cockpit and/or air traffic control services are already in use in several locations. ADS-B now has the green light for full-scale nationwide deployment.

On Approach

- Satellite-based procedures such as **tailored arrivals, optimized profile descent, area navigation (RNAV)**, and **required navigation performance (RNP)** safely, precisely, and efficiently bring aircraft to their destination airport. These procedures can help controllers guide pilots to avoid conditions like bad weather or restricted airspace that might slow down a plane's arrival. They can also keep a plane at its optimal altitude for as long as possible before beginning a smooth, continuous landing approach. Numerous procedures have been published and are in use, resulting in significant fuel savings.

Our biggest challenge today and in the future is meeting capacity needs. In FY 2010, the FAA met all seven goals for greater capacity and, for the sixth year, exceeded the target for aviation noise exposure. In the future, NextGen will provide the capability to efficiently meet or foster an increase in demand. In the meantime, near-term initiatives such as airfield construction, redesigning airspace, and revising air traffic control procedures can help meet short-term capacity needs.

Credit: FAA Image Gallery

MANAGEMENT'S DISCUSSION AND ANALYSIS

FAA ORGANIZATION

The mission of the FAA is to provide the safest, most efficient aerospace system in the world. The 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 more than 50 years.

A YEAR IN HIGHLIGHTS

We serve the flying public by providing a system that:

- ✔ Operates 24 hours a day, 7 days a week, 365 days a year
- ✔ Provides more than 65,000 facilities and pieces of equipment
- ✔ Maintains FAA-operated or -contracted towers at more than 500 airports
- ✔ Inspects and certifies approximately 250,000 aircraft and 595,000 pilots
- ✔ Facilitates almost 5,900 takeoffs and landings per hour
- ✔ Transports more than 710 million passengers annually
- ✔ Moves more than 31 billion cargo revenue ton miles of freight a year
- ✔ Safely guides approximately 70,000 flights through the world's preeminent aerospace system every day
- ✔ Supports 12 million jobs and contributes $1.3 trillion to the national economy through aviation and related industries.

The FAA provides:

- ✔ A workforce of over 48,000 professionals to operate and maintain the most complex air traffic control system in the world
- ✔ An annual budget of approximately $15.9 billion
- ✔ Nearly 15,700 controllers who manage and ensure ever-increasing levels of safety of the busiest air traffic system in the world
- ✔ Over 6,000 technicians who maintain the equipment in the NAS to extremely high levels of operability
- ✔ Research to improve aviation safety and efficiency
- ✔ Grants to improve 3,332 eligible public-use airports in the United States
- ✔ Commercial space launch activities regulations to ensure public safety.

We fulfill our mission through four lines of business (LOBs) that work collaboratively to create, operate, and maintain the NAS. These LOBs are supported by other organizations within the agency, including the Aeronautical Center and the Technical Center.

- **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 35,000 ATO employees provide these services.
- **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; 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.

PREPARING FOR THE AVIATION WORKFORCE OF THE FUTURE

As NextGen ushers in a new era of aviation, the FAA has begun tackling one of its biggest challenges: who will operate the NAS of the future?

Credit: FAA Image Gallery

At the heart of NextGen is the move from land-based radar to satellite for navigating aircraft. This is a fundamental change—for the air traffic controllers who operate and the technicians who maintain the NAS, and for the engineers, researchers, managers, and others who develop, implement, and support the NAS. The new technology will demand new skill sets and competencies from the aviation workforce. For instance, there may be a greater need for expertise in science, information technology, software engineering, and mathematics to design, maintain, and operate NextGen equipment. With the technology still under development, however, it is difficult to know what skills the workforce will need. How do we prepare the next generation aviation workforce for an NAS that is still taking shape?

The workforce transition represents a cultural shift for the FAA and the aviation industry. The agency is laying the foundation for this transition by looking closely at the specific competencies required for NextGen to determine where there are current shortfalls, how to bridge the gaps, and what is the best model for the future. The Acquisition Workforce Plan (www.faa.gov/air_traffic/publications/media/2010_Acquisition_Workforce_Plan.pdf) addresses the impact of NextGen on mission-critical positions through 2014. One innovative near-term solution is to bring on displaced scientists and engineers from NASA's shuttle program to provide a boost of technical expertise as NextGen components are phased in. This year, the agency participated in job fairs at Cape Canaveral to target prospective candidates.

There is much more to do to ensure that the aviation workforce is ready for a new way of doing business. Beginning to adapt to these new realities as soon as possible is critical to ensuring a smooth transformation of the NAS.

- **Aeronautical Center.** The Mike Monroney Aeronautical Center provides logistics, enterprise business services, software design, training, course design, and acquisition services. The FAA Academy is the primary provider of technical, managerial, and executive training for the agency and is the largest training facility within the DOT. The Logistics Center provides parts and logistics services in support of the NAS. The Enterprise Services Center conducts financial operations and system support for the FAA, the DOT, and other Federal Government agencies. The Aeronautical Center also provides technological training, national partnerships, the air traffic control workforce, the technician workforce, logistics support, simulation, and medical research to move the NextGen transformation forward.
- **Technical Center.** The William J. Hughes Technical Center serves as the national scientific test base for the FAA. The Technical Center focuses on research and development, including long-range development of innovative aviation systems and concepts, development of new air traffic control equipment and software, and modification of existing systems and procedures. The Technical Center also provides verification and validation of air traffic control, communications, navigation, airports, aircraft safety, and security systems.

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, the 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.

NEXTGEN ACCOMPLISHMENTS

NextGen is the FAA's long-range plan to overhaul the entire national air transportation system to meet future demands. It aims to make the system safer and more reliable while improving capacity and reducing aviation's environmental footprint. (See related story on pages 4–5.) NextGen is a massive and complex undertaking. It relies on the development and coordination of a variety of innovative technologies, strategies, initiatives, and partnerships. Although full transformation of the NAS is not expected until 2025, the interim phased rollout of NextGen components will have immediate effects on our current aviation system and serve as a bridge to future capabilities. This year, the FAA worked aggressively to continue laying the foundation for NextGen and to keep the system—and stakeholders—primed for transition.

ADS-B: The Backbone of NextGen

ADS-B is a satellite-based technology that provides air traffic controllers and pilots with much more accurate information to help keep aircraft safely separated in the sky and on runways. The core goal of NextGen is to shift from ground-based radar to satellite for tracking aircraft. ADS-B forms the backbone of this transformation. (See related story on pages 4–5.)

The FAA has been integrating ADS-B into a variety of air traffic control systems currently in use to make sure the technology works. In December 2009, the FAA began using ADS-B to control air traffic over the Gulf of Mexico. This was a major milestone. Prior to installing ADS-B, aircraft surveillance in this active airspace was not possible because radar coverage was not available. Using ADS-B, air traffic controllers in this region can now safely and more efficiently separate air traffic, and pilots can get more data about weather and their immediate surroundings delivered directly to them in the cockpit in real time.

In May 2010, the FAA announced the final rule on performance requirements for tracking equipment that planes will need to use ADS-B. This gives manufacturers the green light to begin building the appropriate onboard equipment. With these standards laid out and much of the ground infrastructure now in place, we expect ADS-B to be available nationwide in 2013.

Improved Research and Testing Capabilities

Testing is key to getting NextGen technologies up and running in the NAS. In June 2010, the FAA's William J. Hughes Technical Center opened the NextGen Integration and Evaluation Capability (NIEC) research platform to evaluate and integrate NextGen concepts and components. The NIEC brings the NAS under one roof to test NextGen technologies in real-time simulations using current operating systems. This helps researchers see how the new technologies might work in a real environment. The NIEC complex features an air traffic control simulation area, a cockpit simulator, an unmanned aircraft system suite, a simulated tower cab interior, and a multi-purpose display area to provide a futuristic gate-to-gate picture of a NextGen flight. This fiscal year, the FAA also broke ground on the Aviation Research and Technology Park (adjacent to the Technical Center). The park, which will be built at no direct cost to the FAA, will be a high-technology facility for the agency and our industry partners to research, develop, test, integrate, and verify NextGen technologies.

RTCA Task Force Response and Revised Implementation Plan

In September 2009, the independent RTCA NextGen Mid-Term Implementation Task Force issued a final report that included recommendations for maximizing NextGen's near-term benefits while building a foundation for the future. In March 2010, the FAA issued an annual update to the NextGen Implementation Plan that fully integrates the task force recommendations. The updated implementation plan more clearly defines how the FAA has and will continue to leverage the capabilities of the existing NAS and equipment to meet NextGen's near-term goals while maintaining an aggressive development and deployment schedule for new systems and procedures to position the NAS for mid-term transformation in 2018. At the suggestion of the task force, the FAA's plan also addresses the need for prioritizing the rollout of NextGen capabilities. For example, deploying performance-based navigation technologies in high traffic areas first is a more strategic and cost-effective approach.

Getting the International Community on Board

A harmonized and seamless global air transportation network is necessary for NextGen's success. Getting international partners on board is critical. This year, the FAA launched an educational and marketing campaign to get comprehensive information on NextGen to the international community. The agency also expanded NextGen air traffic and environmental initiatives into the North Pacific and Central/South Asia regions with signing commitments from Japan and Singapore to join the Asia and Pacific Initiative to Reduce Emissions.

OTHER MAJOR ACCOMPLISHMENTS

Raising the Bar on Safety

The continued deployment of NextGen capabilities in FY 2010—such as ADS-B and tailored arrival procedures—represent the FAA's ongoing commitment to making the Nation's air transportation system even safer. Another ongoing safety measure is the implementation of a safety management system (SMS), a top-down business approach that can help detect or correct problems before they result in accidents. SMS is becoming an industry standard worldwide. The FAA is piloting studies to develop SMS guidance for its service providers including airports. ARP issued their SMS Order in August 2010 that will apply SMS to internal ARP procedures. This will require safety risk analysis at an early stage in the planning for airport infrastructure projects. It will also require a safety risk analysis before ARP issues new guidance or standards. ARP also issued an NPRM for comment in October 2010 that would require certificated airports to implement SMS.

This year, the FAA issued an NPRM on flight and duty time limitations and rest requirements to manage pilot fatigue. The rulemaking is part of the agency's response to the 2009 Airline Safety and Pilot Training Action Plan initiatives. In accidents caused by human error, fatigue is a key element. The proposed rule incorporates recent scientific research about the factors that lead to fatigue.

With the overall accident rate so low, it has become difficult to measure improvements and justify the costs of implementing new safety measures using traditional analyses. This has emerged as a new challenge for the agency as it moves into the NextGen era. The FAA will continue to explore up-to-date ways of measuring the impact of safety initiatives.

One way to begin taking safety to the next level is to access more data points to understand emerging trends and vulnerabilities. The Aviation Safety Information Analysis and Sharing (ASIAS) System allows data sharing for key risk areas. ASIAS is a suite of tools that can pull relevant safety data from large amounts of information. Currently, ASIAS links approximately 50 safety databases across the industry so that both the aviation community and the general public can access data from air carriers. In FY 2010, ASIAS began accessing reports in the Air Traffic Safety Action Program, which compiles self-reported potential safety hazards directly from air traffic controllers. ASIAS is an important part of modernizing and transforming the NAS.

The FAA continued to make progress to improve runway safety areas (RSAs). Thirty-seven RSAs were improved in 2010. At the end of FY 2010, 80 percent of the total RSAs requiring improvement were completed; we are on track to complete 100 percent by 2015.

ARRA Projects

The FAA received $1.3 billion in stimulus funds to improve runways and terminals, upgrade air traffic control towers; and modernize power, lighting, and navigation systems at the Nation's airports. We have 100 percent of our funding obligated and over 82 percent outlayed. One of the challenges of the NextGen transition is spreading dollars wisely to maintain and upgrade the current NAS to meet the near-term demands of the flying public while new, longer-term, more efficient technologies and solutions are being phased in. ARRA funds allowed the FAA to invest in improvements to the current infrastructure, which can help alleviate congestion and improve efficiency now, and prime the system for NextGen. ARRA projects also immediately benefitted local economies by supporting thousands of jobs. (See related story on page 11.)

RECOVERY IN ACTION

Under the 2009 American Recovery and Reinvestment Act (ARRA), the FAA received $1.3 billion for projects that could be completed within 2 years. Most of the funds—$1.1 billion—were targeted for Grants-in-Aid to Airports to address airport safety and security, infrastructure, runway safety, increased capacity, and mitigation of environmental impacts. The remaining $200 million was allocated for upgrading airport facilities and equipment (F&E) like air traffic control centers, power systems, and lighting.

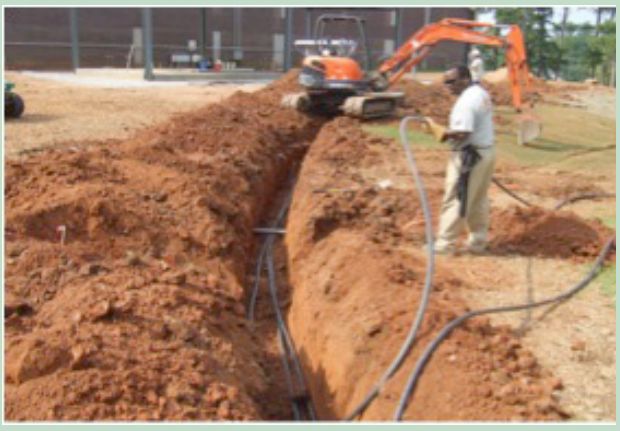
The FAA has moved quickly to invest this money into communities nationwide. To date, 100 percent of Grants-in-Aid to Airports have been awarded and 82 percent disbursed to recipients; 72 percent of the 362 airports projects have already been substantially completed. Of the F&E funds, 91 percent have been awarded and 63 percent of the 319 projects have been completed. Fund recipients report over 4,000 jobs paid for with ARRA money.

Examples of ARRA-supported projects at the Nation's airports include the following:

- **Runway improvements.** Projects entail removing and replacing old concrete on runways and constructing runway safety areas (buffer areas that are uninterrupted by traffic and can support the weight of a plane if it overruns the runway). Runway improvements are underway at locations such as Milwaukee's General Mitchell International Airport, and Omaha's Eppley Airfield.
- **Taxiway improvements.** Aircraft use taxiways to access runways and terminals. ARRA projects are geared towards rehabilitating existing taxiways or constructing new ones to reduce aircraft taxi time and fuel consumption. A major taxiway project was completed and opened for use in April 2010 at Phoenix's Sky Harbor International Airport.
- **Apron improvements.** Parking aprons are the areas where planes are parked, loaded and unloaded, boarded, and refueled. Projects aim to provide safer and more efficient movement of larger aircraft and service vehicles, or to add environmental safeguards to capture, contain, and recycle deicing fluids. Major apron rehabilitation work is under way at Baltimore-Washington International Thurgood Marshall Airport and at Reno-Tahoe International Airport.
- **Air traffic control center upgrades.** There are two national network control centers (in Atlanta and Salt Lake City) that process pilot flight plans. Operational problems at these centers can result in major air traffic delays across the country. ARRA funds are being used to upgrade control center infrastructure.

$13.1 million in ARRA funding was granted to rehabilitate a portion of a runway at Omaha's Eppley Airfield. The project to remove and replace the existing concrete pavement originally constructed in 1950 began in March 2009 and is being completed in two phases. As of May 31, 2010, the airport reported 29,796 job hours using ARRA funds.

Credit: FAA Image Gallery



At the Atlanta National Network Control Center (NNCC), $2.5 million in ARRA funds support a major upgrade to the 30-year old critical power distribution systems, which are fed from the Air Route Traffic Control Center 800 feet away from the NNCC facility. The project created 27 full-time jobs.

Credit: FAA Image Gallery

Preparing for Commercial Space Travel

The FAA's new Center of Excellence in Commercial Space Transportation began operating in August 2010. Led by New Mexico State University, the center is a partnership of universities, private industry, and the Federal Government. It focuses on researching and developing the systems, technologies, operations, policies, and regulations needed for safe commercial space travel. Cutting-edge research is vital. As NASA's space shuttle program winds down, the Nation will increasingly rely on the commercial sector to take over orbital flights for activities such as space station maintenance. In addition, space tourism—suborbital flights that take private citizens into space—may be just around the corner, with test flights expected to begin in 2 to 3 years. (See related story on page 13.) In FY 2010, the FAA licensed the eighth spaceport in the country at Cecil Field in Jacksonville, Florida, while the runway at New Mexico's Spaceport America—the first spaceport to be built from scratch rather than converted from an airport—neared completion. Also this fiscal year, the FAA issued a first-ever safety approval to Philadelphia's National Aerospace Training and Research Center for equipment designed to help train flight crew members by simulating the experience of a suborbital flight.

Going Green

Through the Continuous Lower Energy, Emissions, and Noise (CLEEN) Program, the FAA is partnering with industry to reduce aviation's environmental impacts and secure transportation energy supplies. In June 2010, the FAA awarded $125 million dollars in CLEEN contracts to five companies to develop the next generation in aircraft and engine technologies that will support the transition to renewable jet fuels and help reduce consumption, emissions, and noise. These environmentally-friendly fuels could be introduced into the commercial aircraft fleet within the next five years. (See related story on page 14.) Also in FY 2010, the FAA co-sponsored the efforts of the CAAFI to secure international approval of specifications for a broad range of synthetic non-petroleum jet fuels. Having these standards in place will help spur manufacturers to put the necessary resources and infrastructure in place for production.

Getting More for Your Dollar

When we think about how much it costs to run the Nation's air transportation system, we tend to think first about technology—the pricey and complex systems and gadgets that enable us to fly from here to there safely. Also necessary for keeping our system running are capital assets, the underlying structure of the system. These include not only equipment like radars and towers but also the concrete used to build the base of a tower or lay a runway. The FAA recognizes that tracking money spent on capitalization and ensuring that taxpayers are getting the best value for their dollar has been a weakness in the past. This year, we instituted new internal procedures and metrics to automate and standardize the way information is tracked and reported. This allows the FAA to better monitor the money spent, ensure accuracy and transparency in accounting and reporting, and identify problems early. While there are still improvements to make, the FAA is working hard to ensure that taxpayer dollars are used wisely.

IMPROVING FINANCIAL MANAGEMENT

Cost-Effectiveness and Efficiency

The FAA's *Flight Plan* includes a strategic objective to improve financial management while delivering quality customer service. Since FY 2005, the FAA has included a cost-control target among the *Flight Plan* goals tracked each month. As a result, the agency achieved $79 million in recurring savings in FY 2009 from efforts put in place from FY 2005 to FY 2008, as well as $115 million from FY 2010 efforts. The FAA's efforts in this area are described below.

Service Area Restructuring. By re-evaluating and changing the structure of ATO service areas, the FAA sharply reduced staffing requirements. This activity achieved savings of $32 million in FY 2010.

Workers' Compensation Consolidation. The FAA centralized responsibility for management of workers' compensation claims and achieved a cost avoidance of $21 million in FY 2010. The agency has saved a total of $102 million since FY 2005.

Information Technology. As in most businesses, information technology (IT) investments can be expensive and quickly become obsolete. To address

this, the FAA is becoming more proactive about IT decisions by implementing agency-wide IT initiatives to consolidate resources and improve efficiency. This endeavor yielded a cost savings of over $38 million in FY 2010 and a total of $175 million since inception of the Cost Control Program in FY 2005.

SAVES Program. The Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES) Program is an ambitious effort that began in FY 2006 to implement private sector best practices in the procurement of administrative supplies, equipment, IT hardware, commercial off-the-shelf (COTS) software, and courier services. Nine national contracts in six different categories are managed through the SAVES program. Since the initiation of these contracts, we have exceeded our expected compliance rate. The FAA currently purchases 90 percent of office supplies through contracts, well above the target of 70 percent. The SAVES Program has enabled the FAA to have better financial oversight in addition to significant cost savings. Through SAVES contracts, the FAA achieved over $21 million in cost savings for FY 2010 and a total savings of more than $66 million since implementation. SAVES contracts produced the following savings rates:

- 30 percent for office supplies
- 23 percent for office equipment
- 25 percent for IT hardware
- 12 percent for COTS software
- 9 percent for ground and overnight delivery
- 16 percent for financial systems support

IT Blanket Purchase Agreement. The Office of Information Technology at the Mike Monroney Aeronautical Center manages a Blanket Purchase Agreement (BPA) with a major corporation for IT equipment including desktops, laptops, servers, printers, and monitors. The FAA has realized cost savings of more than $47 million since inception of the BPA.

In addition to cost control, each FAA organization develops, tracks, and reports quarterly on a comprehensive measure of its operating efficiency or financial performance. Cost efficiency activities for each FAA organization must account for 75 percent of operating resources. Efforts in this area are described on the next page.

COMMERCIAL SPACEFLIGHT ON THE HORIZON

With the White House resetting the national space policy this year, the dawn of the commercial spaceflight era just got a little closer.

Under the country's new space policy, the development and operation of equipment like rockets and capsules used to transport cargo and astronauts into low-Earth orbit—to the International Space Station, for instance—will shift from NASA to the private sector. This means new space-related responsibilities for the FAA's Office of Commercial Space Transportation. For example, following the retirement of the space shuttle program, the FAA will provide regulatory oversight for commercial launches of cargo—and eventually crew members—to the space station. The FAA will also lead an interagency effort to identify options, requirements, and potential implementation frameworks for coordinating and managing space traffic.

Credit: NASA Image Gallery

To carry out its new responsibilities, the FAA will establish a Commercial Spaceflight Technical Center at NASA's Kennedy Space Center in Florida during FY 2011. The center will provide technical support for spaceflight safety, operations, engineering and standards, and traffic management. NASA will contribute $5 million from its Florida Space Coast economic development funds to help get the center off the ground and support initial operations. Full funding for the center has been incorporated into the FAA's budget plans for FY 2012. This FAA-NASA partnership will lay the foundation for building the Nation's future space transportation capabilities.

HEADING TOWARDS CLEENer SKIES

In the last 3 decades, aviation has made significant strides in reducing its environmental footprint. Today, a fully loaded 787 flying from San Francisco to New York has a fuel efficiency similar to a 2010 Honda Accord but at almost 10 times the speed. But there is still room for improvement. Without addressing noise, air quality, and climate change challenges, the U.S. aviation system will hit a ceiling on the benefits it provides to the citizens and the economy.

Through the Continuous Lower Energy, Emissions, and Noise (CLEEN) Program, the FAA is partnering with industry to develop environmentally-friendly aviation technology. Taking us to cleaner, quieter skies is one of the goals of the NextGen transition, and leveraging industry expertise is key to getting there. In June 2010, the FAA awarded 5-year contracts worth $125 million to five industry partners: Boeing, General Electric, Honeywell, Pratt & Whitney, and Rolls-Royce-North America. The companies are matching Federal money dollar-for-dollar, bringing the total CLEEN investment to nearly $250 million.

CLEEN aims to reduce jet fuel burn by 33 percent, nitrogen oxide emissions by 60 percent, and cumulative aircraft noise levels by 32 decibels. The CLEEN contractors will participate in a Government-led consortium that meets semi-annually to share results and address technical issues. Some of the "greener" innovations the companies will be working on include modifications to the aircraft frame, new engine technologies, and low noise-high efficiency fans.

Credit: FAA Image Gallery

CLEEN technologies could be coming soon to the commercial aircraft fleet. "As early as 2015," said FAA Administrator J. Randolph Babbitt, "you and I could fly on quieter and cleaner aircraft powered by renewable fuels."

Adapted from an article in Focus FAA, *the FAA's employee news service*

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

Air Traffic Overhead Rate. The FAA captures overhead rates to provide insight into the cost-effectiveness of overhead resources needed to support the ATO. The agency regularly reviews current and historic performance and selected benchmarking with other air navigation service providers. The performance indicator informs management decisions on the mix, level, and allocation of General & Administrative and Mission Support resources.

Regulatory Cost Per Launch. This metric provides trend data for the average regulatory cost per launch. This information is used to track how efficiently the AST mission is interacting with the commercial space industry. Trend data are also reviewed to forecast human resource needs to regulate and support launch and re-entry operations.

IMPLEMENTING EXPENSE CONTROLS

The FAA has improved oversight of the acquisition process to ensure the agency is a responsible steward of the taxpayers' money. We have established requirements to better manage resources and ensure sound business-making decisions.

Procurements. In 2005, the CFO was directed to exercise greater oversight and fiscal control over all agency procurements costing $10 million or more. Since that time, the CFO has evaluated over 275 proposed acquisitions with an estimated contract value of $32 billion. With this process in place, the FAA has improved our ability to articulate and define program requirements, accurately estimate costs and to substantiate those cost estimates. With these improvements, we have established proper controls and can more effectively manage our contract resources.

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

Information Technology. To better coordinate IT efforts, any IT-related spending in excess of $250,000 must be approved by the CFO. This requirement ensures that the FAA IT investments are coordinated and fit into the agency-wide IT strategy.

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

ALIGNMENT OF FAA COSTS AND GOALS

The alignment of our costs with our strategic goal areas is captured in the Cost Accounting System (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 each fiscal year, the total net costs for the FAA's four lines of business and our combined staff offices and other programs are allocated among each of the agency's goals: Increased Safety, Greater Capacity, International Leadership, and Organizational Excellence.

[1] For the source of the totals referred to in this section, see Note 11 to the FAA's financial statements, titled "Net Cost by Program and Other Statement of Net Cost Disclosures" on page 103.

The FAA total net cost of more than $16.9 billion was allocated as described below.

Increased Safety. Nearly $12 billion, or about 71 percent, of the FAA's total net cost was devoted to our primary goal of ensuring the safety of the NAS.

- The ATO spent approximately $8.3 billion, largely to maintain the safe separation of aircraft in the air and on the ground.
- The ARP directed more than $2.1 billion to establishing safe airport infrastructure.
- The AVS spent nearly $1.3 billion on its programs to regulate and certify aircraft, pilots, and airlines, directly supporting the safety of commercial and general aviation.
- The AST, the FAA staff offices, and other programs spent slightly more than $182 million to further support the agency's safety mission.

Greater Capacity. Approximately $4.6 billion—or about 27 percent of total net costs—was assigned to support the FAA's goal of expanding the capacity of the NAS, particularly through the pursuit of programs contributing to the NextGen initiative.

- The ATO spent about $2.7 billion, largely to finance its facilities and equipment projects.
- The ARP spent more than $1.9 billion to enhance the capacity of the country's airports through runway projects and other efforts.
- The AST contributed nearly $3.1 million on improving commercial space launch capabilities through its Spaceport Grant program.
- The AVS contributed slightly less than $1 million to support the safe expansion of NAS capacity.

International Leadership. The FAA as a whole committed approximately $32.9 million to promoting international leadership.

Organizational Excellence. Approximately $318.5 million, the bulk of the FAA's remaining net costs, supported our goal of organizational excellence, to which nearly all the lines of business and staff offices contributed.

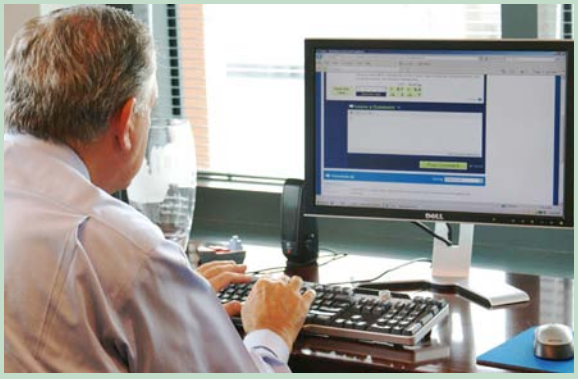
ONLINE PORTAL GIVES AGENCY EMPLOYEES A VOICE

Since August 2010, FAA employees have had a new way to share their workplace improvement ideas with agency management. IdeaHub, a DOT-wide online community, allows employees to submit, rate, and comment on suggestions for improving programs, processes, and technologies throughout the FAA and the entire department. Ideas can range from proposals for telecommuting to suggestions for making the workplace safer.

The internal program was announced by FAA Administrator J. Randolph Babbitt. "I believe that it's essential that all employees have a voice," said Administrator Babbitt. "That's why IdeaHub is so important to me personally. I want to hear your ideas. I want to watch those ideas improve through collaboration. And I want to see the best ideas in action at the FAA."

IdeaHub also aims to improve communications between managers and employees and to boost workforce morale. The Web-based portal establishes a collaborative environment, giving employees a voice and allowing the organization to acknowledge individuals for their innovative ideas.

The program is proving to be popular in the early going. In just the first 3 days after IdeaHub launched, there were more than 440 ideas submitted, 650 comments posted, and 3,200 ratings given. The FAA hopes that use of this Web site will help seed a cultural, agency-wide change in employee satisfaction and engagement.



DOT Secretary Ray LaHood reads ideas submitted in IdeaHub.
Credit: DOT/OST

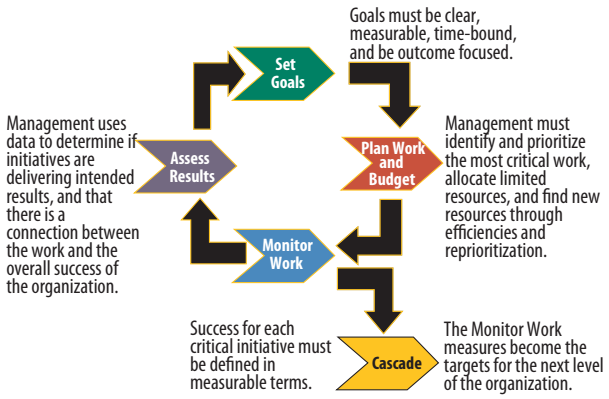
PERFORMANCE HIGHLIGHTS

The 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, the FAA maintains the system's integrity and reliability. A strategic plan, annual business plans, human capital plans, program evaluations, the annual PAR, and re-planning create a recurring cycle of planning, program execution, measurement, verification, and reporting. This strong link between resources and performance focuses accomplishment on defined priorities and reinforces accountability for the way the agency spends taxpayer money.

Managing Performance

The FAA manages organizational performance by using a four-step process based on best practices from a number of private and public sector organizations below. Each year we improve on this strategy through changes and technology enhancements that support the process.

PERFORMANCE MANAGEMENT FRAMEWORK



The first step in the process, "Set Goals," includes consulting with management, employees, and stakeholders to identify areas for improvement. These include near-term priorities and long-standing management challenge areas. Goals, performance targets, and initiatives are defined in the FAA *Flight Plan*.

The second step, "Plan Work and Budget," focuses on the critical work and resources required to achieve the goals. FAA organizations create annual business plans that include costs for individual work activities.

Activities are rolled up to create a performance-based budget that links resource requirements to the *Flight Plan* and the DOT Strategic Plan. The FAA's complete FY 2010 Congressional Justification and Budget in Brief are available at **www.faa.gov/about/budget**. The FAA *Flight Plan* and FY 2010 business plans for all organizations are available at **www.faa.gov/about/plans_reports**.

The third step, "Monitor Work," includes the various performance management activities that FAA executives and employees participate in each month. The FAA Administrator and his entire management team meet monthly to review goals and related performance targets to discuss and target areas for management intervention. These sessions also result in decisions about resource allocation to support priorities. Managers and employees review monthly status reports at the initiative and activity levels and make adjustments as needed.

"Assess Results" is the last and most important step in the performance management process. Using performance information, the agency looks for ways to learn from past performance and improve outcomes. Additionally, we target high-priority programs for external review and evaluation.

The FAA is unique in that as a pay-for-performance organization, annual pay raises for most employees are based on the agency's success in achieving organizational goals. The amount of the organizational success increase (OSI) is based on the general increase approved by the Congress and signed into law by the President each year. The maximum OSI payout is the general increase plus 1 percent. Added to this is locality pay, which differs from one location to another but averages 1 percent across the country. Finally, some employees in the Core Compensation Plan also receive individual superior contribution increases as high as 1.8 percent. This process ensures linkage of organizational priorities to the employee level.

Performance measures and targets support the FAA's mission to provide citizens with a safe, secure, and efficient global aviation system. The table below provides a summary of our year-to-year performance goal achievement trend.

As the table indicates, we have expanded our strategic focus over the last 8 years. As the agency's strategic management processes continue to mature and the focus becomes sharper, the number and mix of performance targets shift. On a yearly basis, the plan is reviewed to ensure that the FAA is on track to meet future challenges and that aviation remains an engine of economic growth.

With the FAA's first annual PAR in FY 2002, the agency had 10 performance goals in the strategic areas of safety, system efficiency, and organizational excellence. In 2003, we refined our strategic plan and launched the first *Flight Plan* (FY 2004–2008). The *Flight Plan* provides the framework to match resources with initiatives for long-term change. It was designed around four ambitious strategic goals: 1) Increased Safety, 2) Greater Capacity, 3) International Leadership, and 4) Organizational Excellence. The FAA's FY 2009–2013 *Flight Plan* was published in celebration of the agency's 50th anniversary. The same strategic goals detail how the FAA will move forward into the future.

In FY 2010—the ninth year of the *Flight Plan*'s implementation—the FAA has 31 performance measures and targets that focus on efforts to enhance aviation safety, increase system capacity, provide international leadership, and ensure organizational success.

YEAR-TO-YEAR PERFORMANCE GOALS ACHIEVED

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Performance Targets Met (Number)	24 of 30	28 of 31	27 of 30	24 of 30	26 of 29	28 of 31	28 of 31
Performance Targets Met (Percentage)	80%	90%	90%	80%	90%	90%	90%

THE RINGS AROUND THE RINGS

By the time opening ceremonies began for the 2010 Winter Olympic Games in Vancouver, the excitement was nearly palpable. But well before the Games opened, the FAA was gearing up for an Olympic-sized safety initiative.

Members of the FAA Safety Team (FAASTeam) for the Puget Sound and Western Washington area spent November and December 2009 crossing Washington state with other FAA and military representatives to spread the word about the temporary flight restriction (TFR) instituted for the Games. While the Olympic Torch was winding its way across Canada, the FAASTeam was tacking up posters at affected airports, seaplane bases, and fixed base operations, and hosting pilot symposiums to announce the temporary security measures.

The TFR airspace was designed in the shape of two joined Olympic rings, with smaller, more restricted areas inside them. The rings covered a 30 nautical mile radius centered on the Vancouver International Airport and Whistler Athletes Village. A portion of the south ring overlaid U.S. airspace, including 16 gateway ports.

Credit: FAA Image Gallery

TFRs are nothing new. But unlike those over other sporting events, which last only a couple of hours or days, this TFR was in effect from late January 2010 until mid-March. The pilots most affected were general aviation pilots not accustomed to added requirements the security restrictions demanded—such as talking to air traffic controllers, filing flight plans in advance, and applying for transponder codes. Getting information out to these pilots was crucial. Those operating out of U.S. airports on the fringe of the rings could come very close to slipping into the rings during takeoff or landing and risk being intercepted by armed fighter jets patrolling the area. Because the restrictions lasted for 6 weeks, the FAASTeam had to come up with a security plan that was not overly burdensome for the airports on the border of the rings. They also assigned special transponder codes to seven airports in and on the edge of the TFR.

The exhaustive outreach and coordinated planning paid off. Compliance was nearly 100 percent with only minimal delays and no serious violations of the TFR—gold medal results for well-executed efforts.

Adapted from an article in Focus FAA, the FAA's employee news service

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. In FY 2010, the FAA identified runway incursion reductions as a high priority performance goal. This designation ensures that the performance in this area is regularly reviewed and any problems are immediately addressed. We met five of eight safety goals, missing our targets for General Aviation Fatal Accident Rate, Alaska Accident Rate, and Operational Errors. Serious runway incursions, those that represent the greatest risk to the public, were reduced by 50 percent for the second consecutive year. For a more complete discussion of all safety measures and performance results for FY 2010, and next steps, see page 35.

Greater Capacity. Capacity is the backbone of air travel. The FAA aims to increase capacity in an environmentally sound manner. In FY 2010, we met seven out of seven capacity goals and, for the sixth year, exceeded the target for aviation noise exposure. For a more complete discussion of all capacity measures and performance results for FY 2010, and next steps, see page 43.

International Leadership. The FAA's goal is to make the international aviation system as safe and efficient as the one enjoyed in the United States. In FY 2010, we met all four international leadership goals. For a complete discussion of all international leadership measures and performance results for FY 2010, and next steps, see page 51.

Organizational Excellence. Employees are the FAA's most valuable resource. They operate the largest and safest aerospace system in the world. To do this efficiently, the FAA must continually provide stronger leadership, a better-trained and safer workforce, enhanced cost-control measures, and improved decision-making. In FY 2010, we met all 12 organizational excellence goals. A new continuity of operations goal was added to measure the agency's ability to respond to crises rapidly and effectively. For a more detailed discussion of all organizational measures and performance results for FY 2010, and next steps, see page 55.

FY 2010 PERFORMANCE AT A GLANCE				
Performance Measure	**FY 2010 Target**	**FY 2010 Results**	**FY 2010 Status**	**FY 2011 Target[1]**
SAFETY				
Commercial Air Carrier Fatality Rate	8.1	0.3[2]	●	7.9
General Aviation Fatal Accident Rate	1.10	1.14[2]	▲	1.08
Alaska Accident Rate (fatal and serious injury rate)	1.86	2.19[2]	▲	1.84
Runway Incursions (rate of category A and B)	0.450	0.117[3]	●	0.450
✪ Total Runway Incursions	979	967[3]	●	959
Commercial Space Launch Accidents	0	0	●	0
Operational Errors (rate of category A and B)	2.05	3.32[3]	▲	2.0
Safety Management System (SMS)	SMS implemented in 3 LOBs	SMS implemented in 3 LOBs	●	SMS implemented in 3 LOBS
GREATER CAPACITY				
Average Daily Airport Capacity (35 Operational Evolution Partnership airports)	101,290[4]	101,668[3]	●	103,068
Average Daily Airport Capacity (7 major metropolitan areas)	39,484	42,618[3]	●	39,484
Annual Service Volume	1.00% (1 runway/ taxiway project)[5]	1.09% (1 runway/ taxiway project)	●	Measure to be discontinued in FY 2011
Adjusted Operational Availability	99.70%	99.79%[3]	●	99.70%
NAS On-Time Arrivals	88.00%	90.33%[3]	●	88.00%
Noise Exposure	-15.91%[6]	-43.79%[7]	●	-19.28%[6]
Aviation Fuel Efficiency	-8.00%	-10.61%	●	-9.00%
INTERNATIONAL LEADERSHIP				
Commercial Aviation Safety Team (CAST) Safety Enhancements (SE)	4 CAST SEs	6 CAST SEs	●	3 CAST SEs
International Aviation Development Projects	7 projects	10 projects	●	7 projects
Aviation Leaders	3 countries/ regional orgs	11 countries/ regional orgs	●	3 countries/ regional orgs
NextGen Technologies	1 country	2 countries	●	1 country
ORGANIZATIONAL EXCELLENCE				
Office of Personnel Management (OPM) Hiring Standard	80.00%	82.00%	●	80.00%
Reduce Workplace Injuries (rate per 100 employees)	2.52 per 100	1.69 per 100[8]	●	2.44 per 100
Grievance Processing Time	-30%	-57%	●	-30%

FY 2010 PERFORMANCE AT A GLANCE				
Performance Measure	FY 2010 Target	FY 2010 Results	FY 2010 Status	FY 2011 Target[1]
Air Traffic Controller Workforce Plan	+/- 2% of annual target[9]	0.03% above annual target	●	+/- 2% of annual target[8]
Aviation Safety Critical Positions Workforce Plan	+/- 1% of annual target	0.95% above annual target	●	+/- 1% of annual target
Cost Control	1 activity per approved organization & achievement of 90% of targeted savings	1 activity per approved organization & achievement of 151.51% of targeted savings	●	1 activity per approved organization & achievement of 90% of targeted savings
Unqualified Audit Opinion (with no material weakness [NMW])	Unqualified audit opinion w/NMW	Unqualified audit opinion w/NMW	●	Unqualified audit opinion w/NMW
Critical Acquisitions on Budget	90.00%	97.29%	●	90.00%
Critical Acquisitions on Schedule	90.00%	90.74%	●	90.00%
Customer Satisfaction	64.00	67.91	●	TBD—government average for regulatory organizations
Information Security	0	0	●	0
Continuity of Operations	5% ahead of FEMA requirements	84% ahead of FEMA requirements	●	5% ahead of FEMA requirements

● Green: Goal Achieved
▲ Red: Goal Not Achieved
✪ FAA High Priority Performance Goal

Notes:

For a detailed description of each performance measure, see performance goal tables in the Performance Results section beginning on page 35.
For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data on page 64.

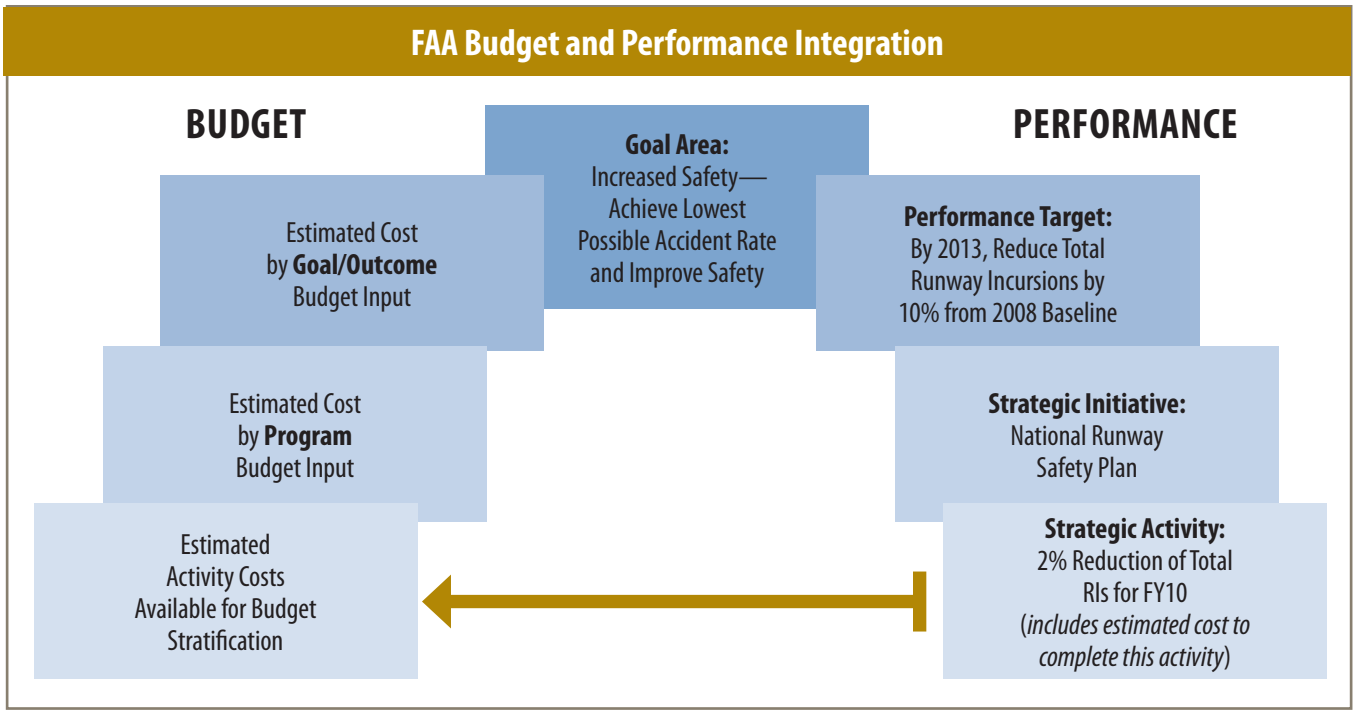
TBD: To be determined
[1] FY 2010 targets are from FY 2009 – 2013 *Flight Plan*, unless otherwise noted.
[2] Preliminary estimate. Final data will be available in March 2012.
[3] Preliminary estimate. Final data will be available in January 2011.
[4] Target revised for FY 2010 from 102,648.
[5] Target revised for FY 2010 from 2 projects.
[6] Target revised for FY 2010 from cumulative reduction of 3-year average over FY 2000–2002 baseline to cumulative annual reduction over FY 2005 baseline.
[7] Projection from trends. Final data will be available in May 2011.
[8] Projection from trends. Final data will be available in December 2010.
[9] Target revised for FY 2010 from 0% to 2% over annual target.

FAA SUPPORT OF WHITE HOUSE INITIATIVES

FY 2010 White House initiatives focused on improving outcomes and transparency by strengthening each aspect of the performance improvement process—from leadership and management to measurement and analysis. Based on OMB guidance, the FAA is transitioning from a planning and reporting approach focused primarily on the supply of performance information to three performance improvement strategies that place greater emphasis on:

- Using performance information to lead, learn, and improve outcomes
- Communicating performance coherently and concisely for better results and transparency
- Strengthening problem-solving networks inside and outside Government to improve outcomes and performance management practices.

To meet the many national challenges such as jump-starting the economy and rebuilding infrastructure, we continue to find ways to operate more effectively and more efficiently. Also of note is our support of ARRA, open Government, sustainability, strategic management of human capital, and reduction of improper payments.



Performance Improvement

High Priority Performance Goals. In response to the President's agenda for building a high-performing Government, the FAA identified a major high priority performance goal for FY 2010 with a high direct value to the public: limit aviation risk on runways. This high priority performance goal informs the American public about the quality of services the FAA provides in return for their tax dollars. We also increased transparency by identifying coherent and effective strategies to accomplish this goal. Our progress will be publicly reported at **www.performance.gov** every quarter for each of the indicators for which data are available beginning in Fall 2010.

Integration of Performance and Budget. As the FAA integrates performance and budget, two critical areas of focus are:

- Deciding and reporting annually, but thinking and planning long-term
- Defining "programs" so that plans, budgets, and statements of net costs can be aligned.

The FAA uses business plans to integrate the financial components of the budget with performance goals. Budgets are built on business plans that advance the goals of the *Flight Plan*, using out-year business plans that contained estimated costs for thousands of activities. These activities are rolled up to calculate costs associated with FAA and DOT goals.

Credible performance measures enable effective budgeting and performance management. Metrics assist in clearly defining expectations, identifying trends, and telling the story. They ensure that the agency presents mission-driven budget requests. Measures are the cornerstone of effective performance management and effective performance budgets. The integration of performance and budget will not only serve as a tool to communicate, illuminate, and allocate resources; it will also assist us in managing our organization more effectively.

Program Evaluations. The FAA understands the importance of rigorous and reliable independent program evaluations. These evaluations are a key resource in determining whether Government programs are achieving their intended outcomes at the lowest-possible cost.

FAA policy makers and agency managers use program evaluations as a tool to strengthen the design and operation of programs. Ultimately, these evaluations help determine how to spend taxpayer dollars more effectively and efficiently.

Management Challenges. The DOT's Office of Inspector General (OIG) identified 10 FY 2010 top management challenges. Six of the ten challenges identified the FAA as a contributing operating administration. The FAA's challenges include:

- Maximizing the department's economic recovery investments
- Addressing human factors and strengthening the regulatory and oversight framework for aviation safety
- Moving toward the NextGen and improving performance of the NAS
- Improving contract management and oversight
- Enhancing the ability to combat cyber attacks and improving the governance of information technology resources
- Strengthening the department's acquisition workforce

The FAA has made substantial strides toward meeting these challenges. More information about the FAA's management challenges and action plans to addressing them is available at **www.faa.gov/about/plans_reports**.

ARRA

On February 13, 2009, Congress passed ARRA at the urging of President Obama, who signed it into law 4 days later. A direct response to the economic crisis, ARRA has three immediate goals:

- Create new jobs and save existing ones
- Spur economic activity and invest in long-term growth
- Foster unprecedented levels of accountability and transparency in Government spending

The FAA has effectively implemented ARRA as a top priority. We have developed a performance plan for each ARRA program. These plans include program goals; how different parts of the agency are coordinating efforts toward successful implementation and monitoring; and the process in place for senior managers to regularly review the progress and performance of major programs by identifying areas of risk and completing corrective actions. The plans also include objectives, activities, and a delivery schedule with milestones for major phases of program implementation, as well as barriers and solutions to effective implementation. We continue to track our progress relative to these plans, recognizing that updates on key measures and milestones will help the public keep tabs on the programs as they are implemented. For more information on the FAA's ARRA activities, see page 11.

Open Government

In January 2009, President Obama signed a memorandum on transparency and open Government. In response to the memo, the OMB directed all executive departments and agencies to take specific actions to implement the principles of transparency, participation, and collaboration. The FAA is responding by providing data to the public regarding airport status and delays. This data feed is updated in real time and can be found at **www.data.gov**. The FAA is also a major contributor to DOT's Open Government Plan, looking at culture, policy, and technology issues involved in enhancing openness. This includes IdeaHub, an online portal where employees can collaborate to build ideas for the department. For more information on IdeaHub, see page 16.

Sustainability

In FY 2009, President Obama signed Executive Order (EO) 13514, Federal Leadership in Environmental, Energy, and Economic Performance, which sets sustainability goals for Federal agencies and makes greenhouse gas reduction a priority. In November 2009, the FAA's nascent Green Building Initiative expanded to the FAA Greening Initiative creating an agency-wide, collaborative effort for meeting EO 13514 and other related mandates. The Greening Initiative's vision is to strengthen FAA energy and environmental management to enhance stewardship and compliance, and foster an agency-wide culture change. The Greening Initiative is composed of a cross-agency Senior Executive Council and Tiger Team.

In FY 2010, Greening Initiative members held multiple Tiger Team and Senior Executive Council meetings. The team created a work plan, began collecting data to baseline the FAA's environmental footprint, and started cataloguing greening initiatives (recent, ongoing, planned, and recommended) across the agency to identify their potential benefits and assess their impact on our environmental footprint. This work will guide the development and implementation of the FAA's Strategic Sustainability Performance Plan that will focus on making improvements in our environmental, energy, and economic performance.

Strategic Management of Human Capital

Hiring Reform. In May 2010, President Obama instructed Government agencies to improve the Federal recruitment and hiring processes. The FAA engaged immediately by launching hiring reform working groups to discuss the agency implications of the Executive Memorandum. We collected, analyzed, and established baseline data for the Office of Personnel Management's (OPM) end-to-end hiring initiative metrics that include satisfaction surveys of managers, applicants, and new hires, as well as security and suitability indicators, and 1- and 2-year retention rates. The FAA New Hire Survey, developed and launched in support of OPM's initiative, provides feedback from new hires from the time of job offer and acceptance through the employee's first month on the job. The FAA will continue to focus on key areas of the hiring process: 1) timeliness and quality, 2) plain language and streamlined vacancy announcements, 3) communication with applicants, 4) involvement of hiring managers, 5) using category rating, and 6) elimination of written questions at the initial application stage.

Improving Employee Satisfaction and Wellness. President Obama's FY 2011 budget request included plans to survey larger samples of Government workers more frequently on job satisfaction, and to assess the health and well-being of Federal employees. The 2009 Best Place to Work in the Federal Government rankings indicated that only about half of FAA employees were clearly satisfied with their jobs and their organization. Knowing that these factors are important for employee engagement, which ultimately drives organizational performance, the FAA has made addressing this a priority.

ENHANCING EMPLOYEE SAFETY WITH AUTOMATED DEFIBRILLATORS

In March 2010, the FAA kicked off a national rollout of automated external defibrillators (AEDs) to facilities with 50 or more employees. Although AEDs are not required in Federal facilities, the FAA is providing them as an added measure of protection for the health of its employees. The rollout is part of a 3-year evaluation to determine the cost effectiveness and feasibility of providing the devices in FAA facilities.

Credit: FAA Image Gallery

You may have seen defibrillators on many TV medical dramas. AEDs are portable electronic devices used to "shock" a person's heart into returning to a normal rhythm. Along with cardiopulmonary resuscitation (CPR), they are designed to be used by people without formal medical training as the first line of response to sudden cardiac arrest. AEDs use voice prompts and visual cues to tell a rescuer when a person's heart requires a shock and what steps to take to deliver it. Research has shown that the devices are effective and easy for trained lay persons to use. The FAA already requires that all commercial aircraft with at least one flight attendant on board be equipped with an AED.

The AEDs are being provided under a public access defibrillation program designed to make the devices available for widespread use. AEDs were first tested at the William J. Hughes Technical Center to make sure they don't interfere electronically with NAS equipment. FAA staff are being recruited to learn how to use the devices and to deliver CPR, which goes hand-in-hand with rescue efforts using AEDs. The FAA's goal is to train at least 15 to 20 percent of the workforce at each FAA facility across the country.

The rollout to large facilities will continue in three phases. The first phase of the program will cover facilities with 50 or more employees (about 68 percent of the workforce). The second phase will evaluate the cost and whether a sufficient number of volunteers can be recruited. If results are positive, the agency would then deploy AEDs to facilities with 10 or more employees during the next 2 years of the program, covering about 97 percent of all employees. By ensuring the safety and well-being of those who work within the NAS, the program represents the FAA's continued commitment to aviation safety.

Adapted from an article in Focus FAA, the FAA's employee news service

The FY 2010 rankings were encouraging. We moved from 214 out of 216 to 187 out of 224 in the ratings. The FAA Administrator has set a goal to become one of the top 10 in this annual report. Continued efforts to implement the FAA Employee Engagement Action Plan will contribute to this goal. Initiatives include:

- **Creativity and Innovation**—We will build upon the successful launch of IdeaHub and act on employee ideas where feasible.
- **Agency-wide Onboarding**—We are implementing an exciting set of initiatives to welcome new employees to the FAA.
- **Work/Life Programs**—We aim to improve agency work-life programs such as the telework policy. We will make employees more aware of existing programs and encourage their use throughout the agency.
- **Leadership Development**—As we move forward with NextGen implementation, we will continue efforts to improve the training of managers to better equip them with the skills necessary to lead and motivate the workforce.

Improper Payments 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. On November 20, 2009, the President signed EO 13520, Reducing Improper Payments. Its intent is to reduce improper payments by boosting transparency, holding agencies accountable for reducing improper payments, creating incentives for states and other entities to reduce improper payments, and increasing penalties for contractors who fail to timely disclose improper payments.

We report our progress on reducing erroneous payments to both the President and Congress. The agency's FY 2010 review did not identify any programs or activities at risk for "significant erroneous payments" in accordance with the OMB's criteria (i.e., programs with erroneous payments exceeding both $10 million and 2.5 percent of program payments).

MANAGEMENT INTEGRITY: CONTROLS, COMPLIANCE, AND CHALLENGES

In an October 4, 2010, memorandum, the Administrator reported to the Secretary of DOT an unqualified statement of assurance under the FMFIA. 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 FMFIA. The head of the line of business or staff office then identifies in writing to the Administrator any potential material internal control weakness or system nonconformance. Weaknesses deemed material are consolidated in a memorandum with a Statement of Assurance signed by the Administrator and sent to the Secretary. Our response becomes a part of the DOT Statement of Assurance sent to the President.

In addition to FMFIA, the FAA reports its compliance with the Federal Financial Management Improvement Act (FFMIA). FFMIA requires an assessment of adherence to financial management system requirements, accounting standards, and U.S. Standard General Ledger transaction level reporting. For FY2010, we are reporting overall substantial compliance.

MANAGEMENT ASSURANCES

Federal Managers' Financial Integrity Act Assurance Statement—Fiscal Year 2010

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

These objectives are to ensure:

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

Internally, we assess the vulnerability of our programs and systems through the FMFIA of 1982. We are pleased to report that taken as whole, the management controls and financial management systems in effect from October 1, 2009, through September 30, 2010, provide reasonable assurance that the objectives of both sections 2 and 4 of the FMFIA are being met. Management controls are in place and our financial systems conform to Government-wide standards.

In addition, the FAA conducted its assessment of the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of its annual financial statements as well as safeguarding of assets and compliance with applicable laws and regulations governing the use of budgetary authority and other laws and regulations that could have a direct and material effect on the financial statements, in accordance with the requirements of Appendix A of OMB Circular A-123. The results of this evaluation provide reasonable assurance that the FAA's internal control over financial reporting was operating effectively as of September 30, 2010. Due to unlimited scope of processes tested this year and no material weakness reported on our financial statements, the FAA is issuing an unqualified statement of assurance.

J. Randolph Babbit
Administrator
November 8, 2010

FINANCIAL MANAGEMENT SYSTEMS STRATEGY AND ACTIONS

Overview

The FAA uses the Federal Enterprise Architecture Framework (FEAF) and the Federal Segment Architecture Methodology (FSAM) in designing our financial management systems strategy. The Federal Enterprise Architecture (FEA) is the Enterprise Architecture of the Federal Government which provides a common methodology for information technology (IT) acquisition, use, and disposal in the Federal government. The FAA used the FEA in FY 2008 and FY 2009 to redesign our financial management systems' architecture, creating a financial segment that cut across all FAA organizations.

The goals of the FAA's financial strategy are based on a gap analysis; changes were identified and prioritized based on risk and potential financial and budget improvement. A summary of targeted activities in the FAA financial system strategy is provided below by FEAF domain which are: Business, Applications, Data, Information, and Services.

- **Business**—Initiate federated financial IT management as a new business model across the agency enabling joint strategic planning and project implementation between FAA organizations. This will ensure financial management solutions are enterprise in nature instead of specific to individual organizations.
- **Applications**—Reduce the current financial management system portfolio through a Financial Systems Modernization program that addresses redundancies in key financial and mixed financial business areas including capitalization, acquisition, labor and payroll analysis and financial reporting.
- **Data**—Implement a financial data management roadmap and stewardship council to govern the use and sharing of FAA financial data as a shared asset, reduce redundancy and improve data quality for decision making.
- **Information**—Build a FAA-wide financial data warehouse to enable consistent reporting while maintaining individual organization's ability to meet core mission area business reporting requirements.
- **Services**—Define and deliver shared operational and infrastructure services for the FAA financial systems. This will reduce redundant services and support better FFMIA compliance.

Systems Critical to Financial Management

The FAA keeps an inventory of financial systems and maintains the status of each system. While all systems are compliant according to FEAF and FSAM guidance, we are constantly working to make further improvements. The following is a summary of the systems critical to financial management and what activities and/or improvements are planned for each.

ACCOUNTING

Delphi is the DOT's comprehensive financial management system. Implemented for the FAA in 2003, Delphi records FAA's financial transactions and account balances. Currently, DOT is working on standardizing business processes around Delphi and will be releasing an update to the current system referred to as Delphi BTT R12.

ACQUISITION

PRISM is a web-based acquisition system that integrates with Delphi's purchasing functions to provide vendor information and communicate accounting information. Its main functions include creating purchase requisitions, verifying funds and approving commitments, creating and approving awards, receiving and accepting goods and services and producing reports. The FAA is migrating toward a business process management suite of tools that will automate and integrate all activities related to procurement. Business process automation tools are currently being piloted before full implementation.

BUDGET

The FAA is trying to combine current budget systems into a single, holistic system. Functionality from various financial systems will be included in an enterprise budget system, focused on budget formulation and execution. The new budget system will link to FAA's strategic planning process ensuring budget priorities are correctly adhering to the FAA Strategic Plan.

INTERNAL CONTROLS

The FAA's Governance Risk and Control (GRC) system enables internal controls staff to manage, monitor, and test internal controls to better manage FAA's financial controls. GRC functionality could potentially be integrated into Delphi BTT R12.

FINANCIAL REPORTING

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

FINANCIAL HIGHLIGHTS

Discussion and Analysis of the Financial Statements

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

FY 2010 FINANCIAL STATEMENT AUDIT

The CFO Act of 1990 (Public Law 101-576), as amended by the Government Management Reform Act of 1994, requires financial statements be prepared by certain agencies and commercial-like activities of the Federal Government and that the statements be audited in accordance with Government auditing standards. The FAA is required to prepare its own financial statements under OMB Bulletin No 07-04, Audit Requirements for Federal Financial Statements. DOT's OIG is statutorily responsible for the manner in which the audit of FAA's financial statements is conducted. The OIG selected Clifton Gunderson LLP, an independent certified public accounting firm, to audit the FAA's FY 2010 financial statements.

In 2002, DOT's OIG and CFO, along with the FAA's CFO, established an Audit Coordination Committee to promote and encourage open communication among the OIG, the 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 charged by the Director of the Office of Financial Management and includes representatives from the OIG, DOT's Office of Financial Management, the FAA's Assistant Administrator for Regions and Center Operations, and ATO's Chief Operating Officer.

In 2006, committee participation was expanded to include representatives from the Chief Counsel's Office, the Assistant Administrator for Human Resources Management, Information Services, and Airports.

Clifton Gunderson LLP has rendered an unqualified opinion on the FAA's FY 2010 financial statements.

UNDERSTANDING THE FINANCIAL STATEMENTS

The FAA's Consolidated Balance Sheets Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources (beginning on page 82) have been prepared to report the financial position and results of operations of the FAA, pursuant to the requirements of the CFO Act of 1990 and the Government Management Reform Act of 1994. The following section provides a brief description of (a) the nature of each financial statement and its relevance to the FAA, (b) significant fluctuations from FY 2009 to FY 2010, and (c) certain significant balances, where necessary, to help clarify their link to FAA operations.

Balance Sheet

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

Assets

Total assets were $27.3 billion as of September 30, 2010. The FAA's assets are the resources available to pay liabilities or satisfy future service needs. The Composition of Assets chart depicts major categories of assets as a percentage of total assets.

The Assets Comparison chart presents comparisons of major asset balances as of September 30, 2009 and 2010.

Fund Balance with Treasury represents 17 percent of the FAA's current period assets and consists of funding available through Department of Treasury accounts from

which the FAA is authorized to make expenditures to pay liabilities. It also includes passenger ticket and other excise taxes deposited to the Airport and Airway Trust Fund (AATF).

At $8.6 billion, Investments represent 31 percent of the 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 the FAA's operations to the extent authorized by Congress. Investments decreased by $618.6 million.

At $13.2 billion, General Property, Plant, and Equipment (PP&E), Net represents 49 percent of the FAA's assets as of September 30, 2010, and primarily comprises construction-in-progress related to the development of NAS assets, and capitalized real and personal property. There was a decrease of $509.9 million in the total composition of PP&E as purchases of equipment and additions to construction-in-progress through the normal course of business were offset by retirements and depreciation.

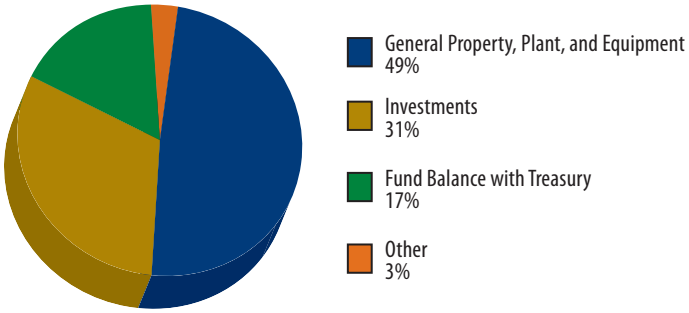
Liabilities

As of September 30, 2010, the FAA reported liabilities of $4.2 billion. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The Composition of Liabilities chart depicts the FAA's major categories of liabilities as a percentage of total liabilities.

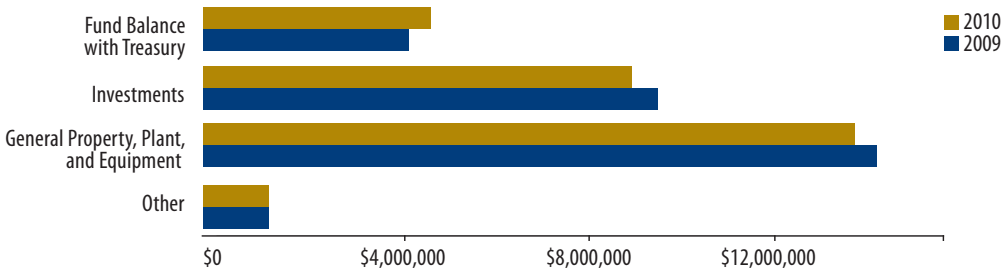
The Liabilities Comparison chart presents comparisons of major liability balances between September 30, 2009, and September 30, 2010. Below is a discussion of the major categories.

At $1.5 billion, Employee Related and Other Liabilities represent 36 percent of the FAA's total liabilities. These liabilities increased by $62.3 million as of September 30, 2010, and are comprised mainly of $126.4 million in advances received, $211.4 million in Federal Employee's Compensation Act payable, $386.9 million in accrued payroll and benefits, $487.8 million in accrued leave and benefits, $72.2 million in legal claims liability, and $107.0 million in capital lease liability.

COMPOSITION OF ASSETS
as of September 30, 2010



ASSETS COMPARISON
Dollars in Thousands



At $908.7 million, Federal Employee Benefits represent 21 percent of the FAA's current year liabilities, and consist of the FAA's expected liability for death, disability, and medical costs for approved workers compensation cases, plus a component for incurred but not reported claims. The Department of Labor calculates the liability for DOT, and DOT attributes a proportionate amount to the FAA based upon actual workers' compensation payments to the FAA employees over the preceding 4 years.

Environmental Liabilities represent 19 percent of the FAA's total liabilities and were $796.2 million as of September 30, 2010, compared with $810.8 million a year earlier. Environmental Liabilities include a component for remediation of known contaminated sites and the estimated environmental cost to decommission assets presently in service.

The FAA's Grants Payable are estimated amounts incurred but not yet claimed by Airport Improvement Program (AIP) grant recipients and represent 13 percent of liabilities. Grants Payable decreased $218.2 million primarily due to the completion of the new grants awarded through the FY 2009 ARRA, eliminating the need for this accrual as of September 30, 2010. Accounts Payable decreased $42.6 million and are amounts the FAA owes to other entities for unpaid goods and services.

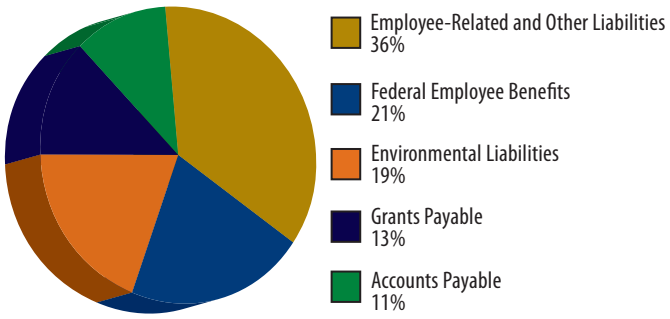
Statement of Net Cost

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

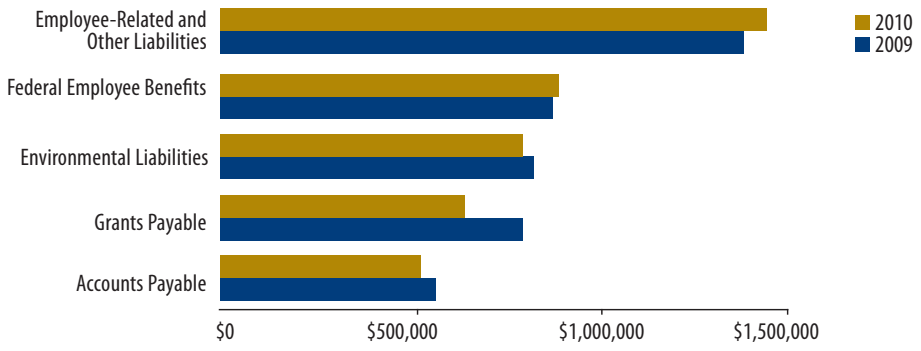
As of September 30, 2009, and September 30, 2010 the FAA's net costs were $16.4 billion and $16.9 billion, respectively. The Composition of Net Cost chart illustrates the distribution of costs among the FAA's LOBs.

The Net Cost Comparison chart compares September 30, 2009, and September 30, 2010, net costs.

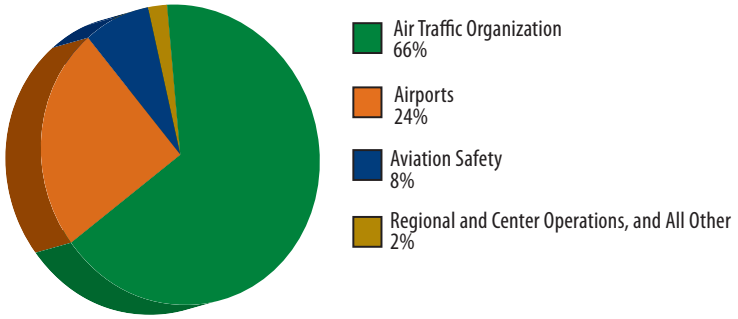
COMPOSITION OF LIABILITIES
as of September 30, 2010



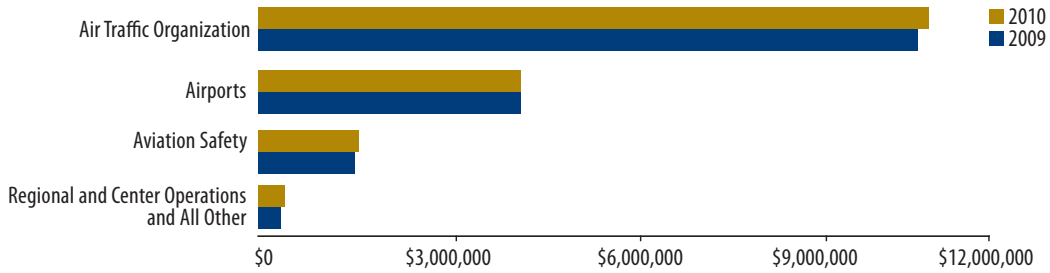
LIABILITIES COMPARISON
Dollars in Thousands



COMPOSITION OF NET COST
as of September 30, 2010



NET COST COMPARISON
Dollars in Thousands



With a net cost of $11.2 billion, the ATO is the FAA's largest LOB, comprising 66 percent of total net costs. ATO's net costs increased by $276.7 million on a comparative basis, primarily from increases in labor costs coupled with decreases in non-reimbursable and reimbursable revenues.

Airports is the FAA's second largest line of business with a net cost of $4.0 billion as of September 30, 2010, which is 24 percent of the FAA's total net costs. Net costs decreased slightly by $19.4 million from the prior year and are composed mostly of AIP grant disbursements.

The net cost of Aviation Safety represents 8 percent of the FAA's total net costs, while Regional and Center Operations and All Other comprise 2 percent of total net costs.

Statement of Changes in Net Position

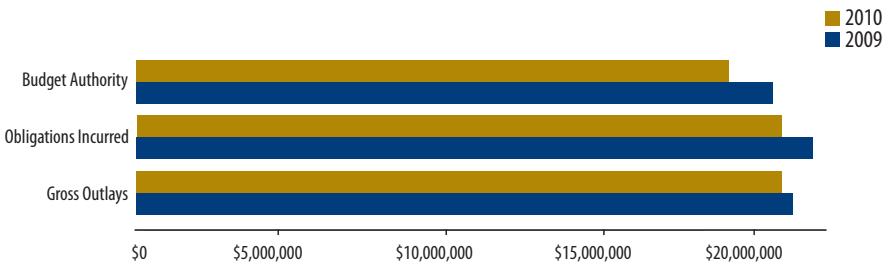
The Statement of Changes in Net Position presents those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received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

The FAA's cumulative results of operations for the period ending September 30, 2010, increased $410.3 million, on a comparative basis, due primarily to a combination of increases in net cost of $505.3 million and financing sources of $2,121.1 million and a decrease in beginning balances of $1,205.50 million. Unexpended appropriations decreased $791.2 million primarily as a result of an increase of $509.1 million in appropriations used for the ARRA grant program.

Statement of Budgetary Resources

This statement provides information on the budgetary resources available to the FAA as of September 30, 2009, and September 30, 2010, and the status of those budgetary resources.

STATEMENT OF BUDGETARY RESOURCES COMPARISONS
Dollars in Thousands



Budget Authority is the authority provided to the FAA by law to enter into obligations that will result in outlays of Federal funds. Obligations Incurred result from an order placed, contract awarded, service received, or similar transaction, which will require payments during the same or a future period. Gross Outlays reflect the actual cash disbursed by Treasury for FAA obligations. The FAA reported total Budget Authority of $19.0 billion on September 30, 2010, compared to $20.7 billion on September 30, 2009. Obligations Incurred decreased $1.7 billion to $21.0 billion. Gross Outlays decreased $615.0 million from $21.6 billion to $20.9 billion.

Stewardship Investments

Stewardship investments are substantial investments made by the FAA for the benefit of the Nation, but do not result in physical ownership of assets by the the FAA. When incurred, these amounts are treated as expenses in the Consolidated Statements of Net Cost. Our Required Supplementary Stewardship Information includes disclosure of stewardship investments over the last 5 years. These are disclosures of AIP grants by state/territory, and research and development investments. The FAA recognizes the grants expense as the recipient accomplishes the improvement work.

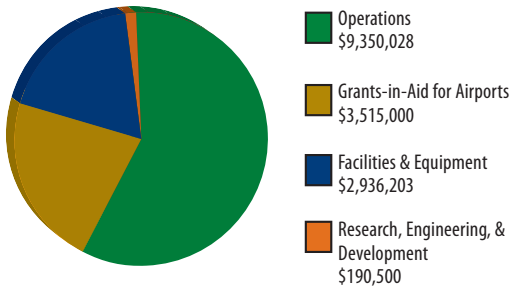
The FAA's research and development expenses increased in FY 2010 by $12.1 million primarily in the category of applied research. Some areas of focus this year included the CAAFI, developing enhanced weather forecasting models for quickly identifying hazardous visibility conditions that impact air traffic capacity, and an examination of the safety related issues to ensure that suborbital point-to-point operations occur safely and seamlessly in the NAS.

Limitations of the Financial Statements

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

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

FAA ENACTED BUDGET—FY 2010
Dollars in Thousands



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

In FY 2010, the AATF provided approximately 66.5 percent of the FAA's enacted budgetary authority. Created by the Airport and Airway Revenue Act of 1970, the AATF derives its funding from excise taxes and earned interest. It provides a source of revenue to finance investments in the airport and airway system. 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 in Government securities. Interest earned is deposited into the fund. Funding is withdrawn as needed and transferred into each FAA appropriation to cover obligations.

The FAA is financed through annual and multiyear appropriations authorized by Congress. The FY 2010 enacted budget of $15.99 billion was 4.6 percent lower than the FY 2009 enacted level of $16.77 billion. This included $10.6 billion from the AATF and $5.4 billion from the General Fund, as enacted by the "Consolidated Appropriations Act of 2010" (PL 111-117).

The FAA has four appropriations. The largest, Operations, is funded by both the Treasury's General Fund and the AATF. In FY 2010, the AATF provided 42.8 percent of the revenue for Operations. The AATF is the primary revenue source for the FAA's three capital investment appropriations:

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

Operations. The Operations appropriation finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It 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 2010 Operations appropriation was $9.35 billion, approximately 3.4 percent more than in FY 2009, an increase primarily attributable to payroll and inflation costs.

AIP. The Secretary of Transportation is authorized to award grants for planning and development to maintain a safe and efficient nationwide system of public airports. These grants fund approximately one-third of all capital development at the nation's public airports. Grants are issued to maintain and enhance airport safety, preserve existing infrastructure, and expand capacity and efficiency throughout the system. The program also supports noise compatibility and planning, the military airport program, reliever airports, and airport program administration. FY 2010 funding for AIP, entirely from the AATF, was just over $3.5 billion, and nearly 24 percent lower than for FY 2009. For that year, $1.1 billion in supplemental AIP funding was provided from the General Fund by the American Recovery and Reinvestment Act of 2009 (PL 111-5). Funding for the Small Community Air Service Development program was $6 million, 25 percent less than the FY 2009 level of $8 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, particularly through programs supporting NextGen. 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 $2.9 billion in FY 2010. This amount, again entirely from the AATF, was nearly identical to the FY 2009 level, which was supplemented by $200 million in ARRA funds. Major systems contributing to the NextGen effort included Automatic Dependent Surveillance-Broadcast (ADS-B), System Wide Information Management (SWIM), En Route Automation Modernization (ERAM), Airport Surface Detection Equipment-Model X (ASDE-X), NextGen Network Enabled Weather, the NextGen Very High Frequency Air/Ground Communications System, and National Airspace System Voice Switch.

R,E,&D. The FY 2010 appropriation for R,E,&D was $190.5 million—11.4 percent more than in FY 2009. R,E,&D funds were applied to research programs to improve the safety and effectiveness of the air traffic control system. The increase for FY 2010 supported enhanced NextGen research and development efforts in the areas of air ground integration and weather in the cockpit, and provided an additional $10 million, more than 65 percent over FY 2009 levels, in environmental research for aircraft technologies, fuels, and metrics.

Safety remains our hallmark. The FAA and our industry partners have built an aviation system that has reduced the risks of flying to all-time lows. The FAA is committed to pushing the bar for safety even higher with new strategies such as the safety management system (SMS) and a Notice of Proposed Rulemaking (NPRM) on flight and duty time limitations and rest requirements to manage pilot fatigue.

Credit: FAA Image Gallery

PERFORMANCE RESULTS

SAFETY

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

America continues to set the world standard for aviation, and safety is the hallmark of the FAA. As the stewards of aviation safety in the United States, the agency and our industry partners have built a system that has reduced the risks of flying to all-time lows. In FY 2010, the FAA continued to focus resources—financial, human, and physical—primarily on safety. The FAA oversees the world's largest, most complex aviation system, and serves millions of people who travel on commercial airlines, hundreds of thousands who make aviation their livelihood, and thousands more who fly for recreation. The level of public confidence in the safety of air travel has a huge impact on the U.S. economy.

The FAA's Call to Action initiatives have been a major focus during FY 2010. The work of the FAA's safety professionals, coupled with the support of industry and labor, has resulted in eliminating fuel tank flammability, virtually eliminating commercial icing accidents, and drastically reducing the number of general aviation accidents in the state of Alaska, among other benefits. The FAA approved 12 new Flight Operations Quality Assurance programs. Three air carriers that had no Aviation Safety Action Programs (ASAP) have now established them. Four more air carriers have established new ASAP programs for additional employee groups. All of this supports the contention that the Call to Action made a difference.

FY 2010 **SAFETY** PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2010 Target	FY 2010 Results	FY 2010 Status	FY 2011 Target[1]
Commercial Air Carrier Fatality Rate Cut the rate of fatalities per 100 million persons on board in half by 2025.	8.1	0.3[2]	●	7.9
General Aviation Fatal Accident Rate Reduce the fatal accident rate per 100,000 flight hours by 10 % over a 10-year period (2009–2018).	1.10	1.14[2]	▲	1.08
Alaska Accident Rate By the end of FY 2019, reduce the rate of fatal and serious injury accidents by 10% in 10 years.	1.86	2.19[2]	▲	1.84
Runway Incursions (A and B) By 2010, reduce category A and B (most serious) runway incursions to a rate of no more than 0.45 per million operations, and maintain or improve through FY 2013.	0.450	0.117[3]	●	.450
Total Runway Incursions By the end of FY 2013, reduce total runway incursions by 10% from the FY 2008 baseline.	979	967[3]	●	959
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 1.95 per million activities by FY 2012 and maintain through FY 2013.	2.05	3.32[3]	▲	2.00
Safety Management System In FY 2010, implement SMS in the ATO, AVS, and ARP. In FY 2012, implement SMS policy in all appropriate FAA organizations.	SMS implemented in 3 LOBs	SMS implemented in 3 LOBs	●	SMS implemented in 3 LOBs

TBD: To be determined

[1] FY 2011 targets are from the FY 2009–2013 *Flight Plan*, unless otherwise noted.

[2] Preliminary estimate until March 2012.

[3] Preliminary estimate until January 2011.

For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data on page 64.

● Goal Achieved

▲ Goal Not Achieved

FAA High Priority Performance Goal

COMMERCIAL AIR CARRIER FATALITY RATE

COMMERCIAL AIR CARRIER FATALITY RATE	
TARGET	The commercial air carrier fatality rate will not exceed 8.1 fatalities per 100 million people on board.
RESULT	**0.3** fatalities per 100 million people on board *(preliminary estimate)*
PUBLIC BENEFIT	As fatal air carrier accidents have declined in terms of average fatalities per accident, this measure will sharpen the FAA's focus on helping air travel become even safer.

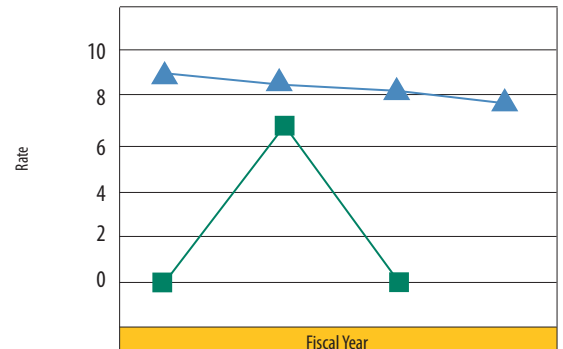
In FY 2010, there was one commercial fatal accident with two fatalities (no passengers). However, the FAA was still successful in maintaining the commercial air carrier rate below 8.1 fatalities per 100 million people on board. During this time, the FAA implemented many safety critical initiatives that helped to keep this rate below the target. These initiatives helped to augment established initiatives, focus on recently identified risks, and maintain a higher level of safety throughout the NAS. Achievements in these areas include:

- Issuance of a draft rule to address pilot fatigue.
- Implementation of a roadmap for performance-based navigation (PBN) through the continued development and implementation of PBN approach procedures. The goal of this initiative is to achieve improved and precision-like capability.
- Continued implementation of Commercial Aviation Safety Team (CAST) initiatives. This initiative provides best practices, policies, procedures, and training used to mitigate human error.
- Maintenance of ISO:9001 registration to certify that FAA's Aviation Safety Organization meets the same standards expected of entities the agency regulates.
- Development of guidance for third party sources to draft public RNP Special Aircraft and Aircrew Authorization Required approach procedures.
- Application of FAA standards and criteria in the helicopter RNP/RNAV procedure development process.
- Collection of safety data at a national level. The agency consolidated these data under the ASIAS program.
- Development and implementation of a strategic plan to address the Inspector General's recommendations.
- Creation of integrated modeling capability with NAS-wide exposure and passenger-specific parameters.
- Continued progress on installing engineered arresting systems at runways that do not have adequate RSAs. Two successful captures of overrunning aircraft were safely stopped without injuries in 2010—one at Charleston, West Virginia, and one at Teterboro, New Jersey.

While these achievements have brought aviation to an unprecedented level of safety, identified sources of risk within aviation provide the basis for moving forward to the next level of safety. Key to the FAA's successful safety efforts is our work with stakeholders to stimulate cooperation for the open reporting of safety concerns. Each member of the aviation community contributes to a safer airspace system through technology, communications, and its own unique expertise.

The FAA updated and published FAA orders and notices that require Part 135 principal inspectors to use the Safety Performance Analysis System (SPAS) Surveillance Priority Index for work program planning. The SPAS is a tool for managing risk-based work programs and provides a foundation for a data-driven approach to safety oversight. Mandatory use of this tool aids principal

COMMERCIAL AIR CARRIER FATALITY RATE
Fatalities per 100 Million Persons on Board



Fiscal Year	2008	2009	2010	2011
Actual	0.4	6.8[1]	0.3[2]	N/A
Target	8.7	8.4	8.1	7.9

[1] Preliminary estimate until March 2011.
[2] Preliminary estimate until March 2012.

inspectors in using resources more effectively by focusing surveillance on higher priority risks.

The FAA's commercial safety record indicates that the agency has successfully addressed the majority of known system risks contributing to accidents or incidents. As the FAA develops and deploys NextGen systems, the increased degree of complexity will require improved analytical methods and tools for evaluating safety risks of proposed changes. To manage these complex changes, the FAA is establishing an SMS while working with stakeholders to establish their own SMS to identify potential risk areas. With the interoperable SMS in place, the FAA and the aviation industry can work together to identify and manage systemic risks using a three-pronged strategy: 1) continue to react to incidents and accidents; 2) increase our ability to proactively respond to warnings and precursors; and 3) develop systematic methodologies to anticipate hazards.

GENERAL AVIATION FATAL ACCIDENT RATE

GENERAL AVIATION FATAL ACCIDENT RATE	
TARGET	Limit the general aviation fatal accident rate to no more than 1.10 fatal accidents per 100,000 flight hours.
RESULT	▲ **1.14** per 100,000 flight hours *(preliminary estimate)*
PUBLIC BENEFIT	By tracking the rate of fatal accidents per flight hours, the FAA can more accurately pinpoint safety concerns or trends indicating potential safety concerns.

More people perish from general aviation accidents each year than in U.S. commercial air carriers. Therefore, reducing the rate of fatal general aviation accidents is a top priority for the FAA.

The FAA did not meet the target this year for reducing the General Aviation Fatal Accident Rate per 100,000 flight hours. We finished the year with a rate of 1.14 fatal accidents per 100,000 flight hours. The primary reasons for the FY 2010 shortfall are in the area of amateur-built aircraft and human factors influences. Amateur-built aircraft accounted for approximately 24 percent of general aviation fatal accidents in FY 2010 while only contributing 3.5 percent of general aviation hours. In addition, approximately 80 percent of general aviation fatal accidents are directly related to some form or combination of human factors.

The FAA continues to investigate, develop, and implement new strategic initiatives to address the challenges of creating a safe environment for on-demand and general aviation flights. We have several initiatives underway to address both the human factors influences and to mitigate the risks associated with amateur-built aircraft.

The agency continues to identify human factors that may contribute to accidents. We will use this information to develop and implement strategies, methods, and technologies that reduce safety risks. The FAA's General Aviation Joint Steering Committee and its sub-teams produce numerous products and aids to help improve pilot performance and decision making. We are also developing a new amateur-built aircraft sub-team under the Steering Committee. This subteam will focus on the development of additional measures to help reduce fatal accidents in amateur-built aircraft.

The FAA works with various members of the general aviation community, including aero-medical evacuation, charter services, and other members of the community to promote education and training on night landings, weather, and other areas of concern.

ALASKA ACCIDENT RATE

ALASKA ACCIDENT RATE	
TARGET	Limit the rate of fatal and serious injury accidents in Alaska for general aviation and all Part 135 operations to no more than 1.86 per 100,000 hours.
RESULT	▲ **2.19** per 100,000 flight hours *(preliminary estimate)*
PUBLIC BENEFIT	Aviation is the primary source of transportation for the majority of the residents in Alaska. The State's topography and weather present unique safety challenges. This measure allows the FAA to follow trends and focus risk mitigation efforts in Alaska. Therefore, we are improving safety for a great number of the residents in this State.

Through FY 2009, the Alaska Accidents performance target has been expressed as the number of accidents per year. In an effort to provide more clarity and focus, the FAA changed the FY 2010 target from the "number" of fatal and serious injury accidents to the "rate." This change will also help us track our progress in meeting our long-term goal of reducing the rate of fatal and serious injury accidents by 10 percent in 10 years (by FY 2019).

The FAA did not meet the target for reducing the Alaska Accident Rate per 100,000 flight hours. We ended with a rate of 2.19 fatal and serious injury accidents per 100,000 flight hours.

The Medallion (Aviation Safety Action Program)

In FY 2010, the FAA continued to work jointly with the Alaska aviation community through a number of organizations and safety programs such as the Medallion Foundation, Circle of Safety, the FAA Safety Team, Alaska Air Carriers Association, Alaska Aviation Safety Foundation, and Alaska Airmen's Association. This joint effort between industry and the FAA supports the *Flight Plan* strategy for sharing safety information.

The Medallion Foundation seeks to improve Alaskan aviation safety by developing and implementing voluntary aviation safety standards that exceed regulatory requirements and are based on accepted system safety concepts. This year, in conjunction with the FAA, the Foundation produced TV and radio ads emphasizing the need to practice short field landings before embarking on a hunting trip. The ads encouraged pilots to work with a Certified Flight Instructor in the Medallion PA-18 Air Traffic Division.

The Circle of Safety program educates passengers, contractors of aviation services, and commercial air operators in their shared responsibility for flight safety. In FY 2010, the FAA Safety Team collaborated with external Circle of Safety stakeholders, including certificate management teams, commercial operators, and passenger groups to revise and implement program materials relating to flight safety in Alaska.

Other groups such as the Alaska Airmen's Association, Alaska Aviation Safety Foundation, and industry groups worked to publicize safety issues through TV shows, newsletters, and a landing clinic at Palmer Airport.

ADS-B

In addition to training and education efforts, the FAA is using NextGen technology in Alaska, such as the satellite-based ADS-B navigation and terrain awareness avionics. This year, we placed increased emphasis on implementing an improved statewide public RNP/RNAV Wide Area Augmentation System (WAAS) enabled route structure.

The RNP/RNAV initiative has been in the *Flight Plan* since 2004 in support of the congressionally mandated Alaskan Capstone Program. The National Transportation Safety Board (NTSB) published a safety study in November 1995 that identified deficiencies in the current instrument flight rules system such as inadequate low-altitude navigation infrastructure and instrument approaches. In conjunction with the Capstone Program, the ATO, enabled the operational use of GPS and WAAS for navigation and access to uncontrolled airports by developing GPS airways and instrument approach and departure procedures. The RNP/RNAV initiative provides an avenue for the ATO and AVS organizations to work closely to manage an integrated schedule to operationally enable a GPS/RNAV WAAS route structure in Alaska. Implementation is under way. This will improve operator efficiency, increased access across Alaska, and safety by increasing situational awareness while incrementally reducing dependency on ground-based navigation facilities.

✪TOTAL RUNWAY INCURSIONS AND RUNWAY INCURSIONS A AND B

RUNWAY INCURSIONS (A AND B)		
TARGET		**For Total:** 979 total runway incursions **For A and B:** 0.450 Category A & B (most serious) runway incursions per million operations
RESULT	●	**For Total:** 967 total runway incursions **For A and B:** 0.117 runway incursions per million operations *(preliminary estimate)*
PUBLIC BENEFIT		Meeting this target reduces the probability that the public will be injured or killed in an accident resulting from a runway incursion.

✪FAA High Priority Performance Goal

A runway incursion is any occurrence at an airfield involving the incorrect presence of an aircraft, vehicle, or person on the protected area of a surface designated for the landing and takeoff of aircraft. Such an event can create dangerous situations that can lead to serious accidents. Runway incursions are grouped into three general categories: 1) air traffic deviatons, 2) pilot deviations, and 3) vehicle and pedestrian deviations. Reducing the number of runway incursions reduces the risk of accidents that potentially involve fatalities, injuries, and significant property damage. This is a high priority performance goal.

One of the FAA's two runway incursion metrics tracks the following two categories of runway incursions, which are the most serious categories:

- **Category A**—Separation decreases to the point that participants take extreme action to narrowly avoid a collision.
- **Category B**—Separation decreases where there is a significant potential for a collision.

The year-to-date runway incursion rate is well under the FY 2010 target and significantly lower than last year's large reduction. The number of serious (categories A and B) dropped from 12 in fiscal year 2009 to six in fiscal year 2010. This is the second consecutive year that the number of serious incursions was cut in half. Of the six incursions this fiscal year, three involved commercial aircraft.

In August 2007, the FAA initiated a Call to Action to improve runway safety. Over the last 3 years, numerous initiatives have been implemented resulting in the reduced risk of a serious runway incursion. These initiatives have included enhanced airport surface markings, a review of pilot taxi procedures and distractions, additional pilot and driver training, revised FAA air traffic control procedures, the formation of the Runway Safety Council, and ongoing emphasis on education and awareness.

The Call to Action initiative also identified several mid-term and long-term initiatives to reduce the risk of runway incursions, including additional air traffic control procedural changes, deployment of runway status lights, development of low-cost ground surveillance, and enhanced cockpit systems to improve pilot situational awareness. The Runway Safety Light System gives direct warnings to pilots on potential runway incursions or collisions through a network of red lights that are embedded in the airfield pavement. The lights warn pilots when it is unsafe for a pilot to enter, cross, or proceed down a runway. Pilots must stop when the red lights are illuminated and may not continue without clearance from air traffic control. These initiatives, combined with the Runway Safety Council's effort to identify and mitigate the root causes of runway incursions, are expected to continue to reduce the rate of serious runway incursions. The timeline for these initiatives is:

Runway Safety Council

- By 2013, reduce serious runway incursion rate by 25 percent from the 2008 baseline.
- By September 2013, Root Cause Analysis Team will analyze and evaluate six serious runway incursions and report results and recommendations to Council

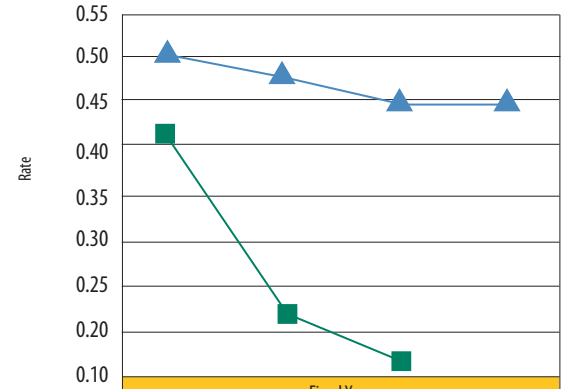
Runway Status Lights

- By the end of 2015, be operational at 23 airports.

Low-Cost Ground Surveillance

- By the end of FY 2013, conduct operational evaluations at five pilot sites.

RUNWAY INCURSION RATE
Per Million Operations
Highest Severity—Category A and B



Fiscal Year	2008	2009	2010	2011
Actual	0.427	0.227[1]	0.117[2]	N/A
Target	0.509	0.472	0.450	0.450

[1] Revised from preliminary estimate of 0.228.
[2] Preliminary estimate until January 2011.

The FAA continues ongoing outreach, education, and awareness programs to affected groups through mass electronic mail communications, training animations, and a new Web page. Runway safety remains a top priority, and we are committed to mitigating the risks of runway incursions. Our efforts are having a positive impact, resulting in a reduced risk of runway incursions for the flying public.

COMMERCIAL SPACE LAUNCH ACCIDENTS

COMMERCIAL SPACE LAUNCH ACCIDENTS	
TARGET	No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and re-entry activities.
RESULT	● No fatalities, serious injuries, or significant property damage
PUBLIC BENEFIT	AST's oversight of commercial space launch industry activities resulted in no loss of life or property damage to the uninvolved public.

The FAA's Office of Commercial Space Transportation (AST) was established by Executive Order in 1984 and is the singular entity with regulation authority over all commercial space launch and re-entry activities. The AST's mission is to ensure protection of the public, property, and the national security and foreign policy interests of the United States during such activities, and to encourage, facilitate, and promote U.S. commercial space transportation. While payloads such as satellites and remote sensing devices have tremendous benefit to our society, with each launch and re-entry there are serious risks for major catastrophic consequences. To ensure the safety of the public and property, the FAA conducts inspections, grants licenses and experimental permits, develops and issues regulations, issues safety approvals, and supports Federal range operations and space traffic management.

In FY 2010, we met our target of zero fatalities, serious injuries, or significant property damage to the general public. The target was maintained with four licensed launches, the same number as in FY 2009. Permitted launches are test launches conducted primarily in the area of research and development. This year, there were no permitted launches. Although no permits were requested, amateur launch flight activity—a prelude to future permitted and licensed flights—increased from five permitted flights in FY 2009 to more than 10 in FY 2010.

The FAA's record of no fatalities, serious injuries, or significant property damage related to licensed space launch and re-entry activities demonstrates a robust commitment by both the industry and the agency. However, we are on the threshold of a new era in space transportation: commercial human space flight and suborbital space tourism. Advances in technologies, along with expected increases in licensee applications, have increased the necessity for the FAA to explore new ways to enhance current safety practices. Increasing safety inspections, improving qualification and training methods of FAA personnel, and enforcing common safety requirements are just a few ways that we are working to ensure the global viability and safety of the ever-changing commercial space transportation. In addition, the FAA partners with other Government agencies—such as NASA, the Department of State, and the Department of Defense—to ensure that licensed operations are performed in accordance with U.S. national security and foreign policy interest.

OPERATIONAL ERRORS

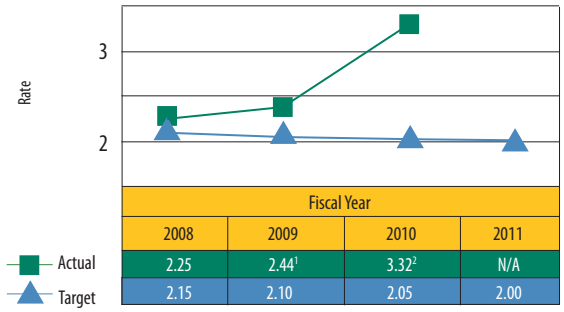
OPERATIONAL ERRORS	
TARGET	Limit category A and B (most serious) operational errors to a rate of no more than 1.95 per million activities by FY 2012 and maintain through FY 2013.
RESULT	▲ **3.32** per million activities *(preliminary estimate)*
PUBLIC BENEFIT	Meeting this target reduces the probability that the public will be injured or killed as a result of operational errors.

Separation—the need to maintain a safe distance from other aircraft, terrain, obstructions, and certain airspace not designated for routine air travel—is one of the fundamental principles of aviation safety. The separation conformance measure is a rate-based measure of safety that complements the rate-based measures of capacity.

For FY 2010, the FAA did not achieve the targeted rate of operational errors. We are coordinating internal efforts to clearly identify respective quality assurance and quality control roles and responsibilities and to better focus corrective activities on the causal factors of separation

OPERATIONAL ERROR RATE

Per Million Activities Highest Severity—Category A&B



[1] Revised from preliminary estimate of 2.43.
[2] Preliminary estimate until January 2011.

loss such as those that contribute to category A and B operational errors. Additionally, we implemented a Risk Analysis Program. This program employs a standardized risk analysis process jointly developed by the FAA and EUROCONTROL. It assesses risk equally across contributing factors, such as controller, pilot, and avionics.

The rate of detection and reporting of category A and B operational errors has improved significantly as a result of several efforts. For the past several years, FAA senior executives have communicated to all personnel that full and accurate reporting of safety events maintains and improves the safety of air transportation. The agency has increased and improved internal auditing processes to better detect instances of non-compliance and under-reporting. We have also completed initial deployment of the Traffic Analysis and Review Program, which is an operational error detection system now deployed in over 150 facilities. All of these efforts have contributed to improved detection and reporting, resulting in an increased rate of category A and B operational errors. While the improved rate of detection and reporting of operational errors has had the negative result of exceeding the target, it has had the more important positive result of improving our ability to accurately measure compliance with flight safety standards and to identify procedures, training, and other activities that may be modified to enhance the safety of air transportation.

We are developing a new measure that is a more effective measure of risk. The System Risk Event Rate (SRER) is proposed to replace the current Category A and B Operational Error Rate measure. The SRER is an SMS-based approach to separation loss mitigation. This new measure incorporates a risk analysis process developed, established, and used by multiple international air navigation service providers.

SAFETY MANAGEMENT SYSTEM

SAFETY MANAGEMENT SYSTEM	
TARGET	3 LOBs to implement the SMS
RESULT	**3 LOBs** implemented the SMS
PUBLIC BENEFIT	Implementation of the SMS will assure ever-increasing levels of safety for the flying public as new systems and technologies are deployed into the NAS moving toward NextGen.

The FAA Safety Management System (SMS) is an approach to detecting safety risks before they result in accidents, rather than learning from accident data after-the-fact. The SMS helps us find more sophisticated ways of analyzing data that seems insignificant to uncover trends that point to safety risks. In an industry with so few accidents, this approach gives us the tools to make better informed decisions and manage issues before they become incidents or accidents.

SMS is becoming the standard for aviation safety worldwide. The International Civil Aviation Organization (ICAO) requires SMS for the management of safety risk in air navigation, traffic control systems, and international airports. ICAO is currently expanding this requirement into air operations, maintenance, and aircraft production. As such, it is most beneficial for the FAA to harmonize its SMS efforts, collaborate on common topics of interest, share lessons learned, and ensure the progression of SMS is in a similar direction.

In FY 2010, SMS was implemented at all 3 targeted organizations: ARP, ATO, and AVS. These organizations collaborated to make the following efforts toward agency-wide SMS implementation:

- Define criteria for agency-wide implementation.
- Establish core capabilities of AVS SMS.
- Monitor the integration of safety risk management processes into NAS changes to ensure that these changes have been assessed for safety risk and that identified safety risks have been mitigated and/or lowered to an acceptable level prior to inclusion into the NAS.
- Communicate and disseminate safety information and manage SMS training to support integration of the SMS across the ATO.
- ARP published an NPRM for comments that would amend Part 139 to require certificated airports to implement SMS.
- Implement Geographic Information System for Airports in the NAS.

The SMS FAA is working to meet the Congressional rulemaking effort timelines to have an NPRM for 14 Code of Federal Regulations Part 121 certificate holders in 90 days. FAA lines of business have made great progress implementing SMS within their organizations. Moving forward, collaboration and clear communication between these organizations will advance agency-wide SMS integration.

The FAA will use a scalable and phased approach to agency-wide SMS implementation. In FY 2011, the FAA will publish FAA-level SMS requirements and develop an agency-wide SMS implementation plan that emphasizes interoperability across lines of business, focusing on important issues that span organizations, including hazard tracking, common taxonomy, and governance. Establishing interoperability across the FAA will allow for system-wide safety assessment and decisionmaking; it will increase efficiency and minimize duplication of efforts in regulatory and safety oversight.

Implementation of SMS will assure ever-increasing levels of safety for the flying public as new systems and technologies are deployed into the NAS moving toward NextGen.

GREATER CAPACITY

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

The FAA's biggest challenge today and in the future is meeting capacity needs. NextGen fosters the capabilities needed to efficiently meet demand. In the meantime, several near-term initiatives—airfield construction, redesigning airspace, and revising air traffic control procedures—have potential for meeting short-term capacity needs.

Increased accuracy, integrity, and reliability of satellite signals over radar is one of the benefits associated with the ADS-B system. ADS-B will allow controllers to safely reduce the mandatory separation between aircraft in non-radar areas, increasing capacity in certain areas such as the Gulf of Mexico. Over the Gulf, air traffic controllers at the Houston en route center are now able to separate aircraft tracked by radar and ADS-B.

ADS-B is also being used by controllers in the tower at Louisville International Airport, at the Louisville Terminal Radar Approach Control (TRACON) facility, and at Philadelphia International Airport. In Philadelphia, ADS-B coverage extends 60 nautical miles from the airport and approximately 10,000 feet up; it also covers the surface area and the approach corridors to the runways. Both Louisville and Philadelphia were chosen as key sites for ADS-B deployment in part because a large volume of United Parcel Service (UPS) operations are conducted in these areas. UPS is participating in the program and has voluntarily equipped some of its aircraft with ADS-B.

General aviation aircraft equipped with ADS-B avionics in south Florida and the Boston area now have weather and traffic information broadcast to the cockpit for free. Eleven ground stations were installed in the south Florida region and 21 ground stations were installed in the Boston area this fiscal year.

In September 2010, the FAA was given the green light for full-scale, nationwide deployment of ADS-B.

FY 2010 **GREATER CAPACITY** PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2010 Target	FY 2010 Results	FY 2010 Status	FY 2011 Target[1]
Average Daily Airport Capacity (35 OEP Airports) Achieve an average daily airport capacity for the 35 OEP airports of 103,068 arrivals and departures per day by FY 2011 and maintain through FY 2013.	101,290[2]	101,668[3]	●	103,068
Average Daily Airport Capacity (7 Metro Areas) Achieve an average daily airport capacity for the 7 major metropolitan areas of 39,484 arrivals and departures per day by FY 2009, and maintain through FY 2013.	39,484	42,618[3]	●	39,484
Annual Service Volume (ASV) Commission 9 runway/taxiway projects, increasing the ASV of the 35 OEP airports by at least 1% annually, measured as a 5-year moving average, through FY 2013.	1.00% (1 runway/ taxiway project)	1.09% (1 runway/ taxiway project)	●	Measure to be discontinued in FY 2011
Adjusted Operational Availability Sustain adjusted operational availability at 99.70% for the reportable facilitates that support the 35 OEP airports through FY 2013.	99.70%	99.79%[3]	●	99.70%
NAS On-Time Arrivals Achieve an NAS on-time arrival rate of 88% at the 35 OEP airports and maintain through FY 2013.	88.00%	90.33%[3]	●	88.00%

FY 2010 **GREATER CAPACITY** PERFORMANCE MEASURES AND RESULTS				
Performance Measure	**FY 2010 Target**	**FY 2010 Results**	**FY 2010 Status**	**FY 2011 Target[1]**
Noise Exposure Reduce the number of people exposed to significant noise by 4% compounded annually through FY 2013 from the calendar year 2005.	-15.91%[4]	- 43.79%[5]	●	- 19.28%
Aviation Fuel Efficiency Improve aviation fuel efficiency per revenue plane-mile by 8%, as measured by a 3-year moving average, from the 3-year average for calendar years 2000–2002.	- 8.00%	- 10.61%	●	- 9.00%

TBD: To be determined
[1] FY 2011 targets are from the FY 2009–2013 *Flight Plan*, unless otherwise noted.
[2] Target revised for FY 2010 from 102,648.
[3] Preliminary estimate until January 2011
[4] Target revised from 4% cumulative reduction of 3-year average from 2000–2002 baseline to 1% reduction per year over 2005 baseline.
[5] Projection from trends will be finalized in May 2011.
For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data on page 64.
● Goal Achieved
▲ Goal Not Achieved

AVERAGE DAILY AIRPORT CAPACITY (35 OEP AIRPORTS AND 7 METRO AREAS)

AVERAGE DAILY AIRPORT CAPACITY (35 OEP)		
TARGET		**For 35 OEP:** Achieve an average daily airport capacity for the 35 OEP airports of 100,707 arrivals and departures per day. **For 7 Metro Areas:** Achieve an average daily airport capacity for the 7 metro areas of 39,484 arrivals and departures per day in FY 2009 and maintain through FY 2013.
RESULT	●	**For 35 OEP: 101,668** arrivals and departures per day *(preliminary estimate)* **For 7 Metro Areas: 42,618** arrivals and departures per day *(preliminary estimate)*
PUBLIC BENEFIT		The public benefits from increased capacity by experiencing a decrease in delays and improved on-time performance.

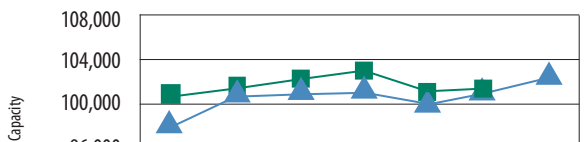
Growth in air travel has generally been accomplished by increasing the number of flights. Measuring the growth of available airport capacity indicates the limit at which we can accommodate increased service without increased delays.

The FAA has two metrics to measure capacity: one measures capacity for seven major metropolitan areas, while the other metric tracks capacity at 35 operational evolution partnership (OEP) airports. The Metro 7 capacity measure focuses on the seven metropolitan areas that contain both the most congested airspace and the greatest constraints on airport expansion. The seven metropolitan areas are New York, Philadelphia, Charlotte, Chicago, Las Vegas, the Los Angeles Basin, and the San Francisco Bay area. The OEP airports serve as focal points for directing and tracking investments in the aviation system, as well as for providing a sample for monitoring, reporting, and analyzing system performance.

The FY 2010 result for the Metro 7 areas is well above the goal. Measuring the growth of airport capacity at these airports indicates the limit at which the system can accommodate increased service without increasing delays at the seven metropolitan areas. Each airport facility within the areas in this measure determines the number of arrivals and departures it can handle for each hour of the day, depending on conditions including weather. These numbers are called arrival and departure rates of the airport for that hour. Fewer construction projects and better-than-expected weather has improved results for this target.

The FY 2010 year-end result for daily airport capacity for the 35 OEP airports is well above the goal. This is due to the impact of runway construction this fiscal year, as well as to more accurate rate-calling on the part of some air traffic facilities. Each of the 35 airport facilities in this measure determines the number of arrivals and departures it can handle for each hour of the day, depending on conditions including weather. Hourly-called arrival and departure rates are adjusted in real time throughout the day based on weather impacts, construction or maintenance impacts, procedural changes, and equipment outages. The FAA's System Operations continues to educate traffic management personnel on this metric and the importance of accurate rate calling in calculation of this metric.

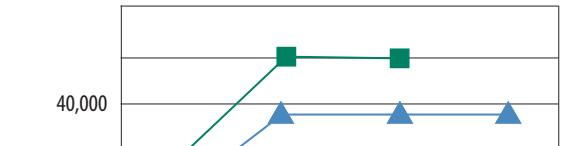
AVERAGE DAILY AIRPORT CAPACITY AT THE 35 OEP AIRPORTS
Arrivals and Departures



Fiscal Year	2005	2006	2007	2008	2009	2010	2011
Actual	101,463	101,932	102,545	103,222	101,691	101,668[1]	N/A
Target	99,892	101,191	101,562	101,868	100,707	101,290	103,068

[1] Target revised for FY 2010 from 102,648.

AVERAGE DAILY AIRPORT CAPACITY AT THE 7 MAJOR METRO AREAS
Arrivals & Departures



Fiscal Year	2008	2009	2010	2011
Actual	35,990	42,925	42,618[1]	N/A
Target	33,676	39,484	39,484	39,484

[1] Preliminary estimate until January 2011.

For FY 2011 and beyond, the FAA is examining new metrics and different ways of focusing on the airports that most affect system performance.

ANNUAL SERVICE VOLUME

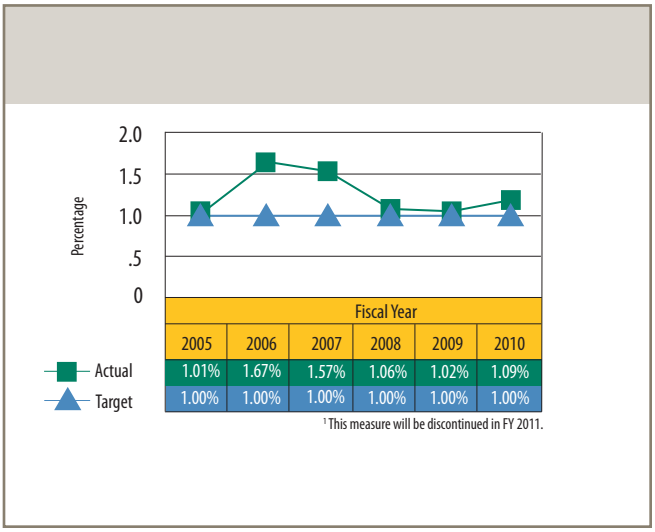
ANNUAL SERVICE VOLUME	
TARGET	Increase the ASV of the 35 OEP airports by at least 1% and commission 1 runway or taxiway project.
RESULT	**1.09%** increase and 1 runway project.
PUBLIC BENEFIT	Increasing the capacity and/or reducing delays of the busiest airports provides significant benefits to the local community and the national air transportation system. This measure estimates the benefit, in terms of additional aircraft operations, from runway construction projects.

The Annual Service Volume (ASV) measure is used to calculate the number of aircraft operations that can be reasonably accommodated at an airport. It is calculated as a 5-year moving average to smooth out peaks and valleys associated with yearly variability in runway openings.

For FY 2010, the target was achieved with an ASV increase of 1.09 percent. In addition, the goal of one new runway/taxiway project was achieved with the addition of a new runway at Charlotte Douglas International Airport. The facility now has the potential to accommodate an additional 80,000 aircraft operations annually. We achieved this target by maintaining a clear schedule and identifying milestones and the organization responsible for each milestone. The schedule was reviewed monthly at the local level and reported regularly to senior management.

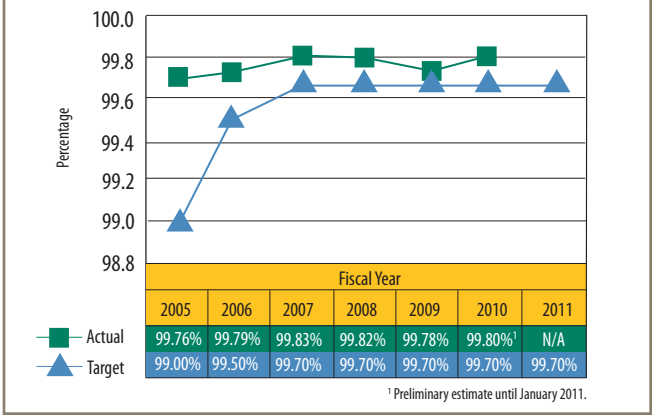
FY 2010 is the last year that the FAA will report on this measure; it will be removed as a goal beginning in FY 2011. However, we will continue to look for meaningful projects. Two future projects planned are the construction of a new runway in Chicago in FY 2013 and a runway extension in Fort Lauderdale in FY 2014.

Over the last 10 years, the FAA and DOT have successfully worked with airports, the aviation industry, and local communities to increase the capacity (as measured by the ASV) of the 35 busiest airports. This has resulted in 22 major airfield improvements at 19 airports, including 16 new runways, 3 major taxiways, 1 runway extension, and 1 airfield reconfiguration. Another airfield reconfiguration is two-thirds completed. Such projects have given these airports the potential to accommodate 1.9 million more annual operations. More than half of these airports have completed a significant capacity project since 2000, which is a remarkable achievement and represents one of the longest sustained capacity-enhancement initiatives. Looking forward, far less of these airports are now actively engaged in the planning or environmental review of significant capacity projects. In other words, the FAA and DOT have achieved this goal and it is no longer relevant beyond FY 2010.



ADJUSTED OPERATIONAL AVAILABILITY

Percentage of Service Hours for Facilities Supporting the 35 OEP Airports



ADJUSTED OPERATIONAL AVAILABILITY

ADJUSTED OPERATIONAL AVAILABILITY	
TARGET	Sustain adjusted operational availability at 99.70% for the reportable facilities that support the 35 OEP airports.
RESULT	**99.79%** *(preliminary estimate)*
PUBLIC BENEFIT	The safety of air travelers and the ability to get them to their destination on time is dependent on the availability of communication, navigation, and surveillance equipment, and redundant back-up systems.

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 number of aircraft that can be handled. The ability of the NAS to continually provide navigation guidance is crucial and affects both safety and capacity.

The target performance level is being met due to adherence to FAA maintenance policies and procedures for NAS monitoring, control, maintenance, and restoration. This strict adherence optimizes service availability for the FAA's 35 OEP airports. Most of the unscheduled downtime for the fiscal year was due to equipment and weather outages. The goal for Adjusted Operational Availability is expected to remain at 99.7 percent. ATO analyzes various performance data to increase or maintain targeted level of performance and determine metric goal in order to provide appropriate safety and capacity outcomes for the flying public.

NAS ON-TIME ARRIVALS

NAS ON-TIME ARRIVALS	
TARGET	Achieve a NAS on-time arrival rate of 88% at the 35 OEP airports and maintain this rate through FY 2013.
RESULT	**90.33%** of flights arrived no more than 15 minutes late *(preliminary estimate)*
PUBLIC BENEFIT	This goal helps the flying public reach their intended destinations on time.

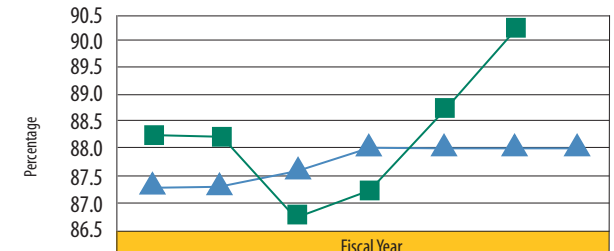
On-time performance is a measure of the FAA's ability to deliver services. This measure includes flight delays caused by incidents outside the agency's control. Since June 2003, when the air carriers began providing the source of each delayed flight, we have a more accurate and equitable method of measuring our performance.

NAS On-Time Arrival is the percentage of all flights arriving at the 35 OEP airports equal to or less than 15 minutes late, based on the carrier flight plan filed with the FAA. This figure excludes minutes of delay attributed to extreme weather, carrier action, security delay, and prorated minutes for late arriving flights at the departure airport. The NAS On-Time Arrival percentage equals the number of flights arriving on or before 15 minutes of flight plan arrival time divided by the total number of completed flights. The target is based on 3 years of historical trending data.

The NAS on-time performance level is the highest it has been since inception of this metric in 2005. In support of this measure, the FAA's Average Daily Airport Capacity (35 OEP and 7 Metro areas) contributed significantly to the success of the NAS on-time target. Both measures met and exceeded expectations. The additional runways and improved arrival and departure accuracy both contributed to the outcome of decreased congestion. New technologies such as the Traffic Management Advisor contributed to more efficient arrival and departure performance at several large airports, including Atlanta, Charlotte, and Newark.

Improved performance is most likely due to the drop in scheduled and unscheduled operations in many major markets in addition to the impact of various FAA initiatives. This has led to less congestion in the NAS, less pressure on the air traffic control system, and improved on-time performance. In FY 2011, we plan to continue focusing on these measures to stem

NAS ON-TIME ARRIVALS
Percentage of Flights No More Than 15 Minutes Late



Fiscal Year	2005	2006	2007	2008	2009	2010	2011
Actual	88.44%	88.36%	86.96%	87.29%	88.98%	90.33%[1]	N/A
Target	87.40%	87.40%	87.67%	88.00%	88.00%	88.00%	88.00%

[1] Preliminary estimate until January 2011.

the trend of increased congestion when high levels of operations return. NextGen technologies will continue improvements. ERAM, ADS-B, and time-based metering will simultaneously improve safety, reduce environmental impacts, and increase user access to the NAS.

NOISE EXPOSURE

NOISE EXPOSURE	
TARGET	Reduce the number of people exposed to significant noise by 4% compounded annually through FY 2013 from the calendar year 2005.
RESULT	**–43.79%** reduction *(projection from trends)*
PUBLIC BENEFIT	Public benefit is reduced exposure to unwanted aircraft noise and increased capacity in the U.S. airspace system, reducing airport congestion and delays.

An obvious way to increase capacity to the aviation system is to add new runways. The aviation industry and the public benefit by these additions; however, because of noise exposure, local governments and communities are often reluctant to place their "stamp of approval" on such projects. The FAA can help communities accept more runways by mitigating and reducing exposure to excessive noise. In FY 2010, we exceeded the performance target to reduce the number of people exposed to significant noise. Although the goal was a reduction of 15.91 percent (measured by a 4 percent compounded rate of reduction from the base year of 2005), we achieved almost a 44 percent reduction.

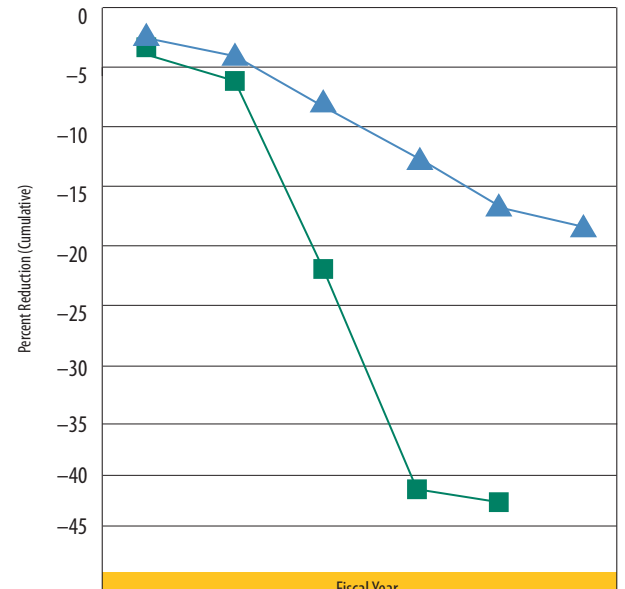
The noise exposure target was re-evaluated this fiscal year because of the large decrease in population exposed to significant noise. The base year has been changed from the average of 2000 to 2002, to the year 2005 to account for the significant changes to the commercial fleet and aircraft operations since 2000–2002. Older aircraft that are generally less fuel efficient and noisier have been retired by the carriers. In addition, passenger demand fell due to a deepening recession and growing unemployment, resulting in a decrease in air traffic. Consequently, the actual number of residents exposed to significant noise remains well below the current target.

The FAA continues a partnership with NASA to develop the CLEEN program. The goal of this 5-year program is to introduce CLEEN technologies into production aircraft in the 2015–2017 timeframe. We are also currently developing a new software suite called Aviation Environment Design Tool (AEDT), which will more accurately model and predict aviation noise and emissions exposure. AEDT is scheduled to replace current modeling methods by the end of 2013.

Developing NextGen technologies and having a variety of noise mitigation approaches available allows the FAA to make ongoing significant improvements. We continue to pursue a program of aircraft noise control, in cooperation with the aviation community and local governments, through aircraft source noise reduction, soundproofing, buyouts of homes and other noise-sensitive buildings near airports, operational flight control measures, and land use planning strategies. While the FAA is authorized to provide funds for airport noise compatibility projects, each project must be locally sponsored by the airport responsible for the noise and approved by the FAA.

NUMBER OF PEOPLE EXPOSED TO SIGNIFICANT NOISE[1]

Cumulative Percentage Reduction From Baseline



Fiscal Year	2006	2007	2008	2009	2010	2011
Actual	–3.48%	–6.12%	–22.40%	–42.53%[2]	–43.79%[3]	N/A
Target	–1.00%	–4.96%	–8.76%	–12.41%	–15.91%	–19.28%

[1] In FY 2010, this measure was revised from a 3-year average of the number of people exposed to noise to a single year's result, and the baseline was reset at FY 2005. Prior year targets and results have been recalculated.

[2] Revised from recalculated projection of -31%.

[3] Projection to be finalized in May 2011.

As air traffic grows, noise exposure is likely to increase. The FAA sets the noise exposure target by analyzing the historical rates of noise exposure change while considering recent events and long-term projections of air traffic demand. The target will be re-evaluated as the agency takes a more integrated approach to environmental regulation by assessing the relative costs and benefits of noise, local air quality, greenhouse gas emissions, and the tradeoff to achieve reductions in each.

AVIATION FUEL EFFICENCY

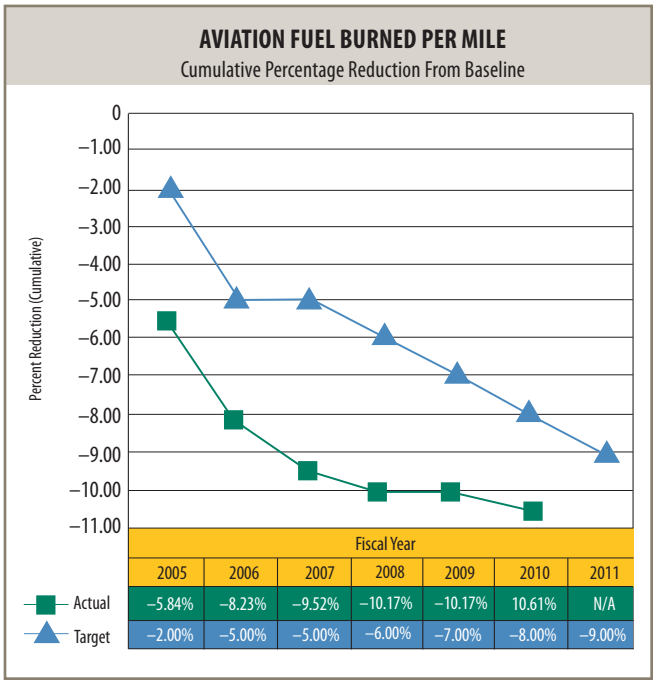
AVIATION FUEL EFFICIENCY	
TARGET	Improve aviation fuel efficiency per revenue plane-mile by 8%, as measured by a 3-year moving average, from the 3-year average for calendar years 2000–2002.
RESULT	–10.61%
PUBLIC BENEFIT	This measure supports the development of improvements in technology and airspace management to reduce aviation's impact on the environment and improve public health and welfare. In addition, more fuel-efficient aircraft should contribute to improving the financial well-being of commercial airlines and a growing economy.

Measuring and tracking fuel efficiency from aircraft operations allows the FAA to monitor improvements in aircraft and engine technology, operational procedures, and the airspace transportation system. By monitoring these improvements, we can assess the degree of impact these factors have on aviation emissions.

The FY 2010 result demonstrates continued progress in maintaining efficiency of commercial aircraft operations within the airspace system, thereby minimizing environmental impact. The current economic climate and its impact on commercial airline operations will affect this outcome. While the number of flights decreased relative to FY 2008, there was a slight increase in flights with stage lengths (takeoff to landing distance in a single leg) less than 1,000 nautical miles. Aircraft that serve these stage lengths typically have slightly better fuel efficiencies.

Since the inception of this performance measure, the FAA anticipated a degradation of fuel efficiency as fleet turnover decreases, technology improvements wane, and air traffic starts to grow again. Due to these factors, the type of leveling off in fuel efficiency seen between FY 2007 and FY 2009 was not unexpected. There are several factors in the overall system that make it difficult to determine the degree to which improvements in system fuel efficiency are attributable to air traffic management enhancements. A combination of factors is responsible for this result including aircraft fleet performance, air traffic growth, and air traffic management of the airspace system. Aircraft fleet performance is still improving due to efforts by airlines to minimize use of aircraft that are less efficient. Air traffic growth has not yet returned to the levels previously forecasted. From a system standpoint, there are fewer opportunities than would otherwise exist for delays and congestion, which would influence this performance measure in a negative manner.

Achievement of this target—and especially an improvement over last year—indicates a continued effort towards better system efficiency. Indirectly, this means less air pollution per passenger carried through the system. A more efficient air transportation system may translate into lower airline costs, which could potentially be passed on to the traveling public by way of lower fares; however, this is within the control of the commercial air carriers. Improved system performance should allow for future growth under NextGen with fewer environmental constraints.



We may see smaller efficiency gains that do not keep pace with the more stringent target in the future years of this performance measure. We anticipate that aircraft and engine technology improvements and air traffic management improvements may not sufficiently offset traffic growth, congestion, and delays. Paramount to addressing fuel efficiency will be a continued focus by commercial airlines to modernize their fleets, and by the FAA on NextGen and research and development of advanced engine, airframe, and fuels technologies. Transitioning to more fuel efficient aircraft models, implementing NextGen improvements, and developing and maturing technologies under CLEEN and NASA-supported research programs will contribute greatly toward continued improvements.

INTERNATIONAL LEADERSHIP

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

International leadership is the way the FAA advances safety and efficiency around the world, to wherever Americans might travel. The 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, certified more than two-thirds of the world's large jet aircraft, and provided assistance to more than 130 countries to improve their aviation systems.

While safety is our 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, free 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 2010 **INTERNATIONAL LEADERSHIP** PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2010 Target	FY 2010 Result	FY 2010 Status	FY 2011 Target[1]
Commercial Aviation Safety Team (CAST) Safety Enhancements Work with the Chinese aviation authorities and industry to adopt 27 proven CAST SEs by FY 2011. This supports China's efforts to reduce commercial fatal accidents to a rate of 0.030 fatal accidents per 100,000 departures by FY 2012.	4 CAST SEs	6 CAST SEs	●	3 CAST SEs
International Aviation Development Projects By 2013, arrange commitment for external funding for at least 35 aviation development projects (7 per year).	7 projects	10 projects	●	7 projects
Aviation Leaders By FY 2013, work with at least 18 countries or regional organizations to develop aviation leaders to strengthen the global aviation infrastructure.	3 countries/ regional authorities	11 countries/ regional authorities	●	3 countries/ regional authorities
NextGen Technologies By FY 2013, expand the use of NextGen performance-based systems and concepts to five priority countries.	1 country	2 countries	●	1 country

[1] FY 2011 targets are from the FY 2009–2013 *Flight Plan*, unless otherwise noted.
For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data on page 64.
● Goal Achieved
▲ Goal Not Achieved

CAST SAFETY ENHANCEMENTS

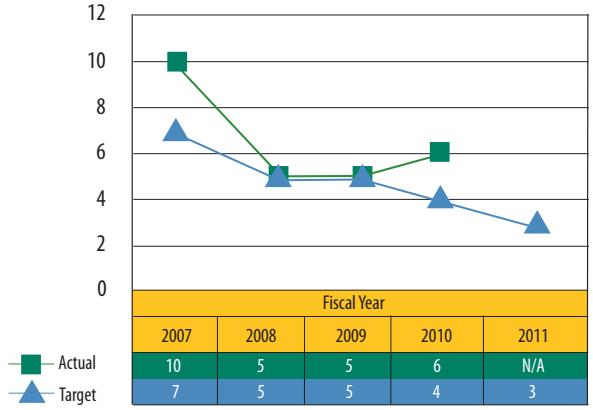
CAST SAFETY ENHANCEMENTS	
TARGET	Assist China with the adoption of a least 4 of the mutually agreed upon CAST SEs to maintain China's safety performance during rapid growth of the aviation system.
RESULT	6 CAST SEs
PUBLIC BENEFIT	The flying public benefits from the worldwide implementation of CAST safety enhancements, which are proven to eliminate the precursors of accidents.

The Commercial Aviation Safety Team (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. It focused on the causes of major accidents and developed a series of safety enhancements (SEs) that eliminated their precursors. These SEs have contributed significantly to the improvement of the U.S. commercial aviation system and have had the same results when implemented around the world.

The FAA works with Chinese aviation authorities, as well as industry, to adopt these SEs. With the fastest growing commercial fleet in the world, China has maintained an impressive accident rate. For FY 2010, the FAA and China agreed on a target of implementing at least four CAST SEs. The Chinese government implemented six.

CAST SAFETY ENHANCEMENTS[1]

Safety Enhancements Implemented by Chinese Government Each Year



[1] Renamed for FY 2009—previously known as Aviation Safety Leadership.

The FAA's target was to work with Chinese aviation authorities to adopt 27 proven CAST SEs by FY 2011. China has moved well beyond the 27 initial CAST SEs and continues to implement additional enhancements. CAST has completed new analyses and reports that have resulted in more SEs. Additionally, China is continuing to accept these additional SEs, based on their safety priorities.

INTERNATIONAL AVIATION DEVELOPMENT PROJECTS

INTERNATIONAL AVIATION DEVELOPMENT PROJECTS	
TARGET	Arrange external funding commitments for at least 7 international aviation development projects.
RESULT	Arranged 11 external funding commitments.
PUBLIC BENEFIT	U.S. citizens enjoy increased aviation safety whenever they travel in global airspace. This safety goal is attained by spreading FAA safety and efficiency practices to countries with developing aviation infrastructure, leveraging FAA expertise and resources, and avoiding duplication of international aviation donations.

In FY 2010, the FAA continued to promote improved safety and regulatory oversight in cooperation with bilateral, regional, and multilateral aviation partners in Africa and the Middle East, Western Hemisphere, and Asia-Pacific. We continued with the shift in focus instituted in 2009 to measure the number of aviation projects rather than the dollar amount, and were successful in arranging external funding commitments for a total of 11 aviation development projects. Projects included infrastructure and capacity-building projects relating to aviation safety, air traffic management, human resource development, and airports. Notably, the FAA influenced funding in excess of $800,000 for aviation projects directly related to the recent disaster-relief efforts in Haiti.

Projects are considered successful once funds are committed to the project with an agreement by all parties involved. The three categories of funding sources are

- U.S. Government departments and agencies that provide foreign economic assistance

- Aviation industry partners
- Economic assistance agencies of foreign governments.

This year the FAA's Office of International Aviation carried out a vigorous outreach program with U.S. Government agencies, other governments, and other organizations that provide development financing. Included in this list are stakeholders such as the U.S. Trade and Development Agency, the U.S. Department of State Agency for International Development, the Asia-Pacific Economic Cooperation (APEC), and the American Association of Airport Executives.

We successfully arranged external funding commitments for the following projects:

- Haiti Airport Priorities Project
- Caribbean Aviation Safety and Security Oversight System Airport Certification Process
- Regional Part 129 Program Workshop for Countries Seeking to Provide Foreign Carrier Service to the United States
- India Aviation Cooperation Program: Airports Authority of India Manpower Assessment; Directorate General Civil Aviation, India, Human Resource Development Oversight; NextGen Technologies Feasibility Study
- China Aviation Cooperation Program
- APEC Airport Safety Oversight and Advanced Technologies Workshop
- Indonesia Civil Aviation Authority Reorganization Feasibility Study
- West Africa Regional Aerodrome Certification Seminar (Ghana)
- East Africa Regional Aerodrome Certification Seminar (Uganda)
- Iraq Civil Aviation Reconstruction Orientation Visit
- Afghan Aviation Infrastructure Projects

AVIATION LEADERS

AVIATION LEADERS	
TARGET	Work with at least 3 countries and/or regional organizations in FY 2010.
RESULT	Arranged 10 aviation development leaders program in countries within Africa, the Middle East, Western Hemisphere, and Asia-Pacific regions.
PUBLIC BENEFIT	As foreign aviation leaders are exposed to FAA best practices, they are better able to affect improvements within their civil aviation authorities. U.S. citizens are then provided the benefit of an improved experience when flying abroad.

The FAA has a strategic vision of helping foreign countries to independently meet international aviation standards. One way to meet this vision is to work with countries or regional organizations to develop aviation leaders, which will strengthen global aviation infrastructure.

This measure showcases opportunities for the FAA to arrange for foreign civil aviation leaders to strengthen their aviation leadership skills through participation in specific programs. For example, the Department of State's International Visitor Leadership Program, the FAA's Executive Management Development Training, and management courses at the FAA Academy are all venues providing developmental opportunities for potential and current civil aviation leaders. Working with foreign aviation professionals to develop solid leadership skills is an integral component of developing civil aviation administrations worldwide. In FY 2010, we exceeded our target by working with the following 10 countries and/or regional organizations:

- Senegal
- United Arab Emirates
- European Commission
- Panama
- Indonesia
- Japan
- Malaysia
- Singapore
- Thailand
- Vietnam

NEXTGEN TECHNOLOGIES

NEXTGEN TECHNOLOGIES	
TARGET	Expand the use of NextGen performance-based systems and concepts to 1 priority country.
RESULT	Expanded NextGen technologies to 2 priority countries.
PUBLIC BENEFIT	Influencing other countries to investigate NextGen solutions will, over time, standardize a higher percentage of the global air traffic control system with that of the U.S. NAS. This will result in safe, efficient, and environmentally-friendly air travel on both U.S. and foreign air carriers. The NextGen program's operational and efficiency initiatives may result in shorter flight times, reduced fuel burn, and savings for both airlines and airspace customers.

It is very difficult and challenging to measure success in the international leadership environment as one would on-time departures or arrival delays. Success is often the intangible result of a sustained international commitment and support program. Recognizing this, the FAA provides a wide array of technical assistance and support to the international civil aviation community to promote NextGen and influences countries to take significant steps towards the implementation and operational use of NextGen technologies, procedures, and concepts.

There is no budget associated with this performance target, as the global support that we provide in support of NextGen is assumed by the specific program offices or paid for by international civil aviation authorities or air navigation service providers through the execution of reimbursable bilateral technical assistance agreements. However, political will, cultures, foreign policy, and other government budgets can be significant factors in the success of this target.

The FAA provides a vast range of technical assistance and international leadership to a variety of countries and international organizations. The ultimate success of this measure is not known at the outset but determined mid-year based on the maturity of the NextGen-based support project and the willingness of the foreign governments and/or international organizations to commit to U.S. NextGen solutions.

During FY 2010, the FAA signed Joint Statements by both the Civil Aviation Bureau of Japan (JCAB) and the Civil Aviation Authority of Singapore (CAAS), officially commiting their air navigation service providers to the support and promotion of NextGen-focused initiatives within the Asia and Pacific Initiative to Reduce Emissions (ASPIRE). The JCAB was officially welcomed into the ASPIRE Partnership on October 11, 2009, and CAAS on February 1, 2010. These two signing commitments officially expanded NextGen air traffic and environmental initiatives to the North Pacific and Central/Southeast Asia, meeting the FY 2010 performance target.

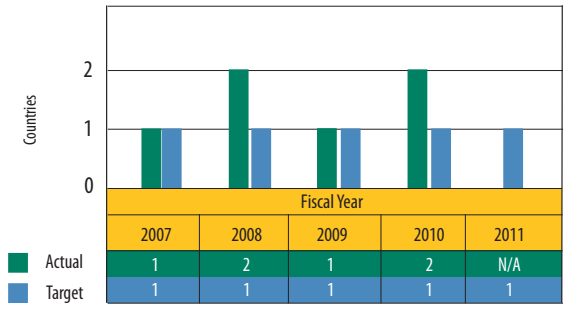
Normal coordination and facilitation issues were encountered throughout the planning for the ASPIRE signing ceremonies and demonstration flights that needed to be solved. These were normal issues related to managing an international project with many different stakeholders and cultural views involved.

We successfully expanded the concepts and trials of NextGen supporting operational efficiency-enhancing procedures to the North Pacific and to Central and Southeast Asia environments. The FAA will continue to lead the application of these procedures and concepts in the region to ensure most efficient use of airspace and resulting fuel and environmental savings.

While this measure has been an important and useful tool, the FAA is currently investigating and formulating improvements to this measure and associated NextGen performance targets. Specifically, we would like to shift away from a "one country" target that is subjective and relies on many external factors, to a target that is a percentage of successfully completed strategic level activities in support of NextGen proliferation.

NEXTGEN TECHNOLOGIES

Number of Countries Implementing NextGen Technologies, Procedures, or Concepts Each Year



ORGANIZATIONAL EXCELLENCE

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

The 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 DOT's strategic initiatives. Efforts this year focused on information security, program management, and creating a high performance workforce with the skills and abilities required to reach and sustain the NextGen levels of safety and efficiency.

Maintaining organizational excellence means addressing several ongoing challenges. As threats from hackers and cyber terrorists grow, agency employees are challenged to push past the status quo and develop new solutions to emerging information technology threats. During FY 2010, the agency instituted many new practices that have warded off potential security threats and have kept information safe and secure.

The FAA remained off the Government Accountability Office (GAO) High-Risk List during FY 2010. All of our major system investments are within 10 percent variance of current baseline total budget estimate at completion. The FAA continues to deploy new systems across the country and incur fewer cost overruns.

So much will change over the next 15 years that to set a path in concrete would limit our ability to be flexible in these incredibly dynamic times. The people of the FAA are our greatest strength. In FY 2010, we continued to draw on everyone's talent and ideas to move us into the future. We reaffirmed our commitment to making the FAA the best place to work and have made great progress toward developing a more collaborative culture.

The FAA also remained vigilant in managing the modernization of the NAS to a satellite-based NextGen system. In FY 2010, we achieved our cost and schedule goals, tracking a total of 64 milestones against 40 different programs. Of the 54 milestones, 49 (90.7 percent) are on or ahead of their scheduled dates. All of our major system investments are within 10 percent variance of current baseline total budget estimate at completion. We continue to deploy new systems across the country and to incur fewer cost overruns.

FY 2010 **ORGANIZATIONAL EXCELLENCE** PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2010 Target	FY 2010 Results	FY 2010 Status	FY 2011 Target[1]
STRATEGIC MANAGEMENT OF HUMAN CAPITAL				
Office of Personnel Management (OPM) Hiring Standard By FY 2010, 80% of FAA external hires will be filled within OPM's 45-day standard for Government-wide hiring.	80.00%	82.00%	●	80.00%
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, and maintain through FY 2013.	2.52 per 100	1.69 per 100[2]	●	2.44 per 100
Grievance Processing Time Reduce grievance-processing time 30% (to an average of 102 days) by FY 2010 over the FY 2006 baseline of 146 days, and maintain the reduction through FY 2013.	-30%	-57%	●	-30%
Air Traffic Controller Workforce Plan Maintain the air traffic control workforce at, or up to 2% above, the projected annual totals in the Air Traffic Controller Workforce Plan.	+/- 2% of annual target[3]	0.03% over annual target	●	+/- 2% of annual target[3]
Aviation Safety Critical Positions Workforce Plan Maintain the aviation safety workforce within 1% of the projected annual totals in the Aviation Safety Workforce Plan.	+/- 1% of annual target	0.95% over annual target	●	+/- 1% of annual target

FY 2010 **ORGANIZATIONAL EXCELLENCE** PERFORMANCE MEASURES AND RESULTS				
Performance Measure	**FY 2010 Target**	**FY 2010 Results**	**FY 2010 Status**	**FY 2011 Target[1]**
IMPROVED FINANCIAL PERFORMANCE				
Cost Control Organizations throughout the agency will continue to implement cost efficiency initiatives such as 10–15% savings for strategic sourcing for selected products and services; by the end of FY 2009, reduce leased space for Automated Flight Service Stations from approximately 510,000 square feet; annual reduction of $15 million in Information Technology operating costs; by FY 2010, reduce overhead costs 5–10% through automation of invoice processing.	1 activity per approved organization & achievement of 90% of targeted savings	1 activity per approved organization & achievement of 151.51% of targeted savings	●	1 activity per approved organization & achievement of 90% of targeted savings
Unqualified Audit Opinion Obtain an unqualified opinion on the agency's financial statements with NMW each fiscal year.	Unqualified audit opinion w/NMW	Unqualified audit opinion w/NMW	●	Unqualified audit opinion w/NMW
ACQUISITION MANAGEMENT				
Critical Acquisitions on Budget By FY 2009, 90% of Major System Investments are within 10% variance of current baseline total budget estimate at completion.	90.00%	97.29%	●	90.00%
Critical Acquisitions on Schedule In FY 2009, 90% of Major System Investments selected annual milestones are achieved.	90.00%	90.74%	●	90.00%
CUSTOMER SATISFACTION AND OPERATIONAL CAPABILITY				
Customer Satisfaction Maintain the annual average of FAA surveys on the American Customer Satisfaction Index at or above the average Federal Regulatory Agency score.	64	67.91	●	TBD–gov't avg for regulatory organizations
Information Security Achieve zero cyber-security events that disable or significantly degrade FAA services.	0	0	●	0
Continuity of Operations Exceed FEMA continuity readiness levels by 5%.	5% ahead of requirements	84% ahead of requirements	●	5% ahead of requirements

TBD: To be determined

[1] FY 2011 targets are from the FY 2009–2013 *Flight Plan*, unless otherwise noted.

[2] Projection from trends. Final data will be available in December 2010.

[3] Target revised for FY 2010 from 0% to 2% over Plan target.

For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data on page 64.

● Goal Achieved

▲ Goal Not Achieved

OPM HIRING STANDARD

OPM HIRING STANDARD	
TARGET	By FY 2010, 80% of FAA external hires will be filled within OPM's 45-day standard for Government-wide hiring.
RESULT	**82%** within OPM 45-day hiring standard
PUBLIC BENEFIT	Timely applicant selections are being made for FAA jobs. By use of this standard the lengthy hiring process is decreased and applicants are notified timely of their hiring status with the FAA. Mission critical positions are filled with quality candidates who may otherwise be selected by private industry.

Throughout Government and industry, there is fierce competition to attract a skilled workforce. The FAA must hire capable staff with the requisite competencies in a timely manner. Using the Office of Personnel Management (OPM) 45-day hiring standard as an organizational excellence performance target, we achieved greater efficiencies in hiring applicants new to the Federal Government. In anticipation of the forthcoming retirement bubble, it is in the agency's best interest to ensure the hiring process nets qualified individuals needed to achieve mission results in a timely manner. Measuring hiring time is a critical step in improving this process.

The OPM 45-day hiring standard measure was developed by the OPM as a Government-wide performance standard and is defined as beginning 1 day after a vacancy announcement closes and ending the day a tentative or firm job offer is made to an applicant. This measure applies to all occupational series serviced through an automated online application system (AVIATOR). The system tracks the number of business days from the closing date of the announcement to the date of tentative or firm offer is made. At the end of the fourth quarter of FY 2010, 82 percent of external selections through AVIATOR, were within the 45-day hiring standard.

Recognizing that communication among all stakeholders is vital, we monitor the hiring process and work with selecting officials. The FAA holds selecting officials accountable for using documented FAA merit-hiring principles during the selection process. Audits are used to ensure that selections have been made in good faith and in accordance with these principles. Process efficiency efforts include an internal review and emphasis on data integrity, resulting in a more standardized and documented data collection process. These procedures, along with continuing assessment and correction of process barriers, contributed to our success in achieving the FY 2010 target for this performance goal.

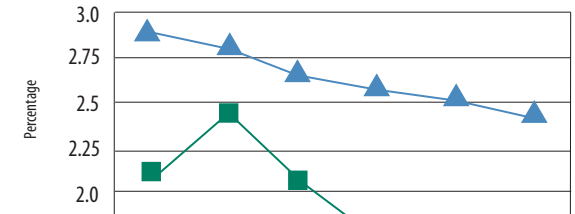
REDUCE WORKPLACE INJURIES

REDUCE WORKPLACE INJURIES	
TARGET	Reduce the total workplace injury and illness case rate to no more than 2.52 per 100 employees.
RESULT	**1.69 per 100 employees** *(projection from trends)*
PUBLIC BENEFIT	Reducing injuries improves the FAA workforce efficiency directly. Indirectly, the public benefits because employee safety contributes to flying safety.

The FAA continued to emphasize worker safety through training, inspections, hazard abatement, and program evaluations. These actions were targeted to the most prevalent causes of mishaps, based on analysis of data on effective preventative measures. As part of the data analysis, we continue to systematically apply Occupational Safety and Health Administration recordkeeping criteria, which helps identify injury causes quickly and allows us to target solutions. This helps to mitigate the risk of injury recurrence.

We met our goal by reducing the workplace injury and illness case rate to 1.69, which is lower than the not-to-exceed target of 2.52 cases per 100 employees. One factor

WORKPLACE INJURIES
Per 100 Employees



Fiscal Year	2006	2007	2008	2009	2010	2011
Actual	2.17	2.43	2.10	1.77[1]	1.69[2]	N/A
Target	2.85	2.76	2.68	2.60	2.52	2.44

[1] Revised from projection of 1.66.
[2] Projection to be finalized in December 2010.

impacting performance was the emphasis on AEDs. AEDs are portable electronic devices that automatically diagnose abnormal heart rhythms. An AED is used to treat it with defibrillation (the application of an electrical "shock" that allows the heart to reestablish a normal rhythm). The FAA has tracked the incidence of at-the-FAA-workplace cardiac events for 10 years (October 1998 through September 2008). During this period, we have identified 10 workplace events—about 1 per year among more than 46,000 FAA employees. Additionally, this life-saving tool added to the confidence of the workforce in the agency employee safety program. (See the related story on page 23.)

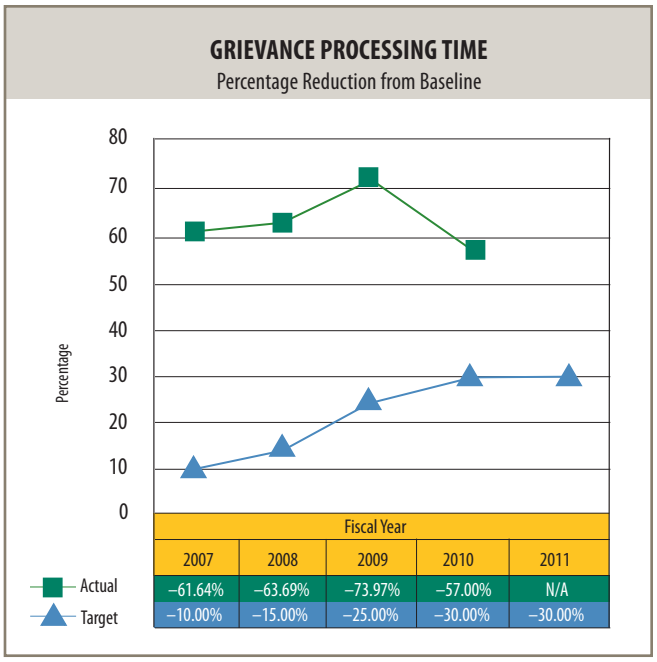
We expect to see continuing improvements in performance as employee safety is incorporated into the overall safety culture of the FAA. Specific workforce safety commitments are in our annual business plans. These commitments emphasize employee awareness and participation, leadership support for employee safety, risk identification and mitigation, training, and employee safety program evaluation with top management accountability.

GRIEVANCE PROCESSING TIME

GRIEVANCE PROCESSING TIME	
TARGET	Reduce average grievance processing time by 30% to 102 days, from the 2006 baseline of 146 days.
RESULT	We met our goal by exceeding the FY 2010 target of 102 days by 57%. The average grievance processing time for FY 2010 was 44 days.
PUBLIC BENEFIT	Reducing grievance processing time is not only conducive to better labor-management relations, it also enables faster correction of non-compliance with the FAA's collective bargaining agreements and contributes to agency efficiency.

To ensure a consistent labor management program, the FAA focuses on providing effective and efficient processes to train managers and supervisors to handle grievances, negotiations, and contract administrations. The agency demonstrates a good-faith effort to deal promptly with employee complaints, which benefits the public as employees' attention to their duties is not distracted by workplace issues.

In FY 2010, we aggressively tracked and processed 5,454 grievances, averaging 44 days in processing time for a 69.87 percent reduction and exceeding the 30 percent



target. Our continued efforts to reduce processing time for grievances supports our objective to resolve employee and union complaints at the lowest level possible with the least amount of time, resources, and disruptions to the work environment and mission.

As the grievance processing time continues to approach the ideal, year-to-year improvements may be less striking over time. However, the FAA will continue efforts to maximize the effectiveness of the grievance process.

AIR TRAFFIC CONTROLLER WORKFORCE PLAN

AIR TRAFFIC CONTROLLER WORKFORCE PLAN	
TARGET	Maintain the air traffic controller workforce within 2% of the projected annual totals in the Air Traffic Controller Workforce Plan.
RESULT	Maintained workforce at **0.03%** over annual target
PUBLIC BENEFIT	This measure is a tool to help manage the dynamic controller staffing needs of the NAS. This gives us the ability to effectively handle system-wide air traffic demand and provide seamless service to the flying public.

This measure helps to effectively manage the long predicted wave of retirements of controllers that were hired in the wake of the 1981 strike. Managing target results will mitigate the risk of another major spike in retirement eligibility in future years. In FY 2010, we met our target with an end-of-year workforce level

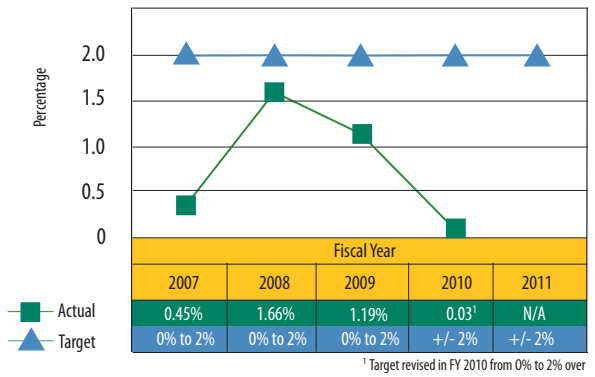
within 2 percent. This was achieved through careful management, collaboration across lines of business, and quality training.

FY 2010 found the FAA with fewer controller retirements than previously anticipated. Additionally, a reduction in air traffic volume reduced the number of controllers needed to manage traffic. We took steps to slow down hiring and training. Because the hiring pool number was up, a planned general public announcement was eliminated. Also, the use of recruitment incentives for prior military was discontinued. To balance training requirements with new targeted hiring, we dropped the third training shift at the FAA Academy and rolled into a modified two-shift schedule. Training modernization continued by focusing on training improvements where they are needed most, such as in complex TRACON facilities. We increased training effectiveness by adding a new TRACON skill enhancement workshop at the FAA Academy so that controller candidates have increased proficiency and practice at handling more complex traffic simulation scenarios before leaving the Academy.

Air traffic controllers are being hired and trained at the right levels to accommodate needs based on traffic volume and workload requirements. The hiring target is matched with traffic volume and workload requirements to ensure that the FAA has the right number of controllers at the right place at the right time. We will continue to update hiring targets for the next 10 years (including facility-by-facility benchmarks) and to publish these updates to the Controller Workforce Plan delivered annually to Congress. The current plan can be found at **www.faa.gov/air_traffic/publications/controller_staffing/media/CWP_2010.pdf.**

AIR TRAFFIC CONTROLLER WORKFORCE PLAN

Percentage Difference Between End-of-Year Levels and Projected Totals in Plan



[1] Target revised in FY 2010 from 0% to 2% over annual target to within plus or minus 2% of target.

AVIATION SAFETY CRITICAL POSITIONS WORKFORCE PLAN

AVIATION SAFETY CRITICAL POSITIONS WORKFORCE PLAN	
TARGET	Maintain the aviation safety workforce within 1% of the projected annual totals in the Aviation Safety Workforce Plan.
RESULT	**0.95%**
PUBLIC BENEFIT	By ensuring that we are hiring, training, and retaining a highly qualified, high-performing workforce, we are able to maintain and provide the safest aviation system in the world to the flying public.

Key to the FAA's success in maintaining the safety of an aviation system that is experiencing the safest period in its history is its workforce. The primary future workforce challenge will be to hire, train, and retain a highly qualified, high-performing aviation safety workforce with the skills necessary to implement, maintain, and continuously improve the SMS.

As of September 30, 2010, AVS had 7,473 permanent positions on board versus the 2010 target level of 7,403. The FY 2010 staffing target represented a growth of 289 positions above the FY 2009 end-of-year full-time, permanent staffing level of 7,195.

To achieve this performance target, AVS routinely surveys its workforce attitudes and agency workforce planning practices to assess progress in meeting its hiring goals. The organization monitors the attrition of its leadership cadre and safety-critical workforce to sustain talent in the face of increasing competition and a decreasing technical labor supply. In addition, AVS analyzes trends in safety-critical occupations to adjust the recruitment and retention strategy to current and future needs.

COST CONTROL

COST CONTROL	
TARGET	One activity per approved organization and achievement of 90% of estimated savings
RESULT	One activity per approved organization and on pace for achievement of **151.51%** of estimated savings. This is the sixth consecutive year the FAA will meet its goal.
PUBLIC BENEFIT	Funds received by the FAA are being used in a more efficient and cost-effective manner. We are taking aggressive steps to stem the growth of operating costs. This measure is a tool by which increased focus is placed on efficiency and cost.

In FY 2010, the FAA's Cost Control Program exceeded the end-of-year goal by reaching 151.51 percent of estimated cost savings and avoidance. Organizations throughout the FAA implemented at least one cost savings or avoidance activity. In some cases, organizations offered more than one activity in support of this very important program. These combined activities are expected to accomplish and exceed the 90 percent goal of targeted savings set at the beginning of the year. The primary source of these savings is from ATO's service area consolidation, strategic sourcing of selected products and services, and effective management of the Workers' Compensation Program.

The Cost Control Program is a robust program that continues to challenge us to be more cost efficient. This program will continue to aggressively search for opportunities to curb operating costs.

UNQUALIFIED AUDIT

UNQUALIFIED AUDIT	
TARGET	Obtain an unqualified opinion on the agency's financial statements with no material weakness.
RESULT	Unqualified audit opinion with no material weakness.
PUBLIC BENEFIT	The public benefit is the assurance by independent auditors that the agency is being operated in a transparent and fiscally responsible manner.

This measure is an indicator of the quality of the FAA's financial accountability. An unqualified audit opinion tells the public and Congress that the agency is transparent and accountable in how it is using taxpayer resources.

All FAA organizations have the responsibility for following accounting policy properly by entering accurate source data into the accounting system. This is essential to achieving an unqualified audit with no material weakness. From the highest levels of the organization, we place a strong emphasis on the audit as a priority. Executive-level leadership moves resources where they are needed so that sound internal controls are operating routinely and effectively, any audit issues are resolved promptly, integrity of data and business system operations is ensured, and ongoing performance is monitored. This strong emphasis on fiscal responsibility is the most significant factor contributing to the achievement of this measure.

CRITICAL ACQUISITIONS ON SCHEDULE/CRITICAL ACQUISITIONS ON BUDGET

CRITICAL ACQUISITIONS ON SCHEDULE AND BUDGET	
TARGET	Ensure that major system investments are within 10% variance of current baseline total budget estimate at completion, and that 90% of major system investments selected annual milestones are achieved.
RESULT	**90.74%** on schedule and **97.29%** on budget
PUBLIC BENEFIT	The FAA's ability to keep acquisitions within budget and schedule will allow for a timely transition of NextGen programs. The transition to NextGen involves acquiring numerous systems to support precision satellite navigation; digital, networked communications; integrated weather information; layered, adaptive security; and more.

Each year, the Critical Acquisitions on Schedule and Budget targets represent a progressive measure of the performance of critical FAA acquisition programs. The performance measures began in FY 2003 and will continue each fiscal year through the acquisition of the selected programs.

The performance targets increased each year—from 80 percent in FY 2003 until they reached 90 percent in FY 2008. This progressive increase ensures the FAA's acquisition performance is consistent with targets set in the DOT's Strategic Plan 2006–2011. Maintaining the 90 percent target reached in FY 2010 ensures our performance goals meet the Federal Acquisition Streamlining Act of 1994, Title V. This Act requires agencies to establish cost, schedule, and measurable performance goals for all major acquisition programs and achieve 90 percent of those goals.

In FY 2010, a total of 90.74 percent of the major system investments remained within the established schedule goals. Forty-nine of a total of 54 milestones were completed as scheduled. Technical changes through software development, testing, and deployment challenged our ability to meet scheduled milestones. The ERAM, Advanced Technologies and Oceanic Procedures system, and Traffic Flow Management Modernization targets were not achieved.

A total of 97.29 percent of the major system investments remained within their established cost goals. The final cost of the ERAM program is expected to exceed its total acquisition goal by more than 10 percent.[3]

While the FAA continues to accomplish program milestones on schedule and on budget, the DOT's Inspector General (IG) found in their Fiscal Year 2010 Top Management Challenges Report that we need to improve contract management and oversight and strengthen our acquisition workforce. The report noted that we were not effectively safeguarding against making awards to improper parties. We have strengthened our suspension and debarment program by incorporating review into our National Acquisition Evaluation Program. We also revised our Acquisition Management System (AMS) to state that within 45 days of proper notification FAA will either initiate a debarment or suspension proceeding, or make a decision that a debarment or suspension is not appropriate.

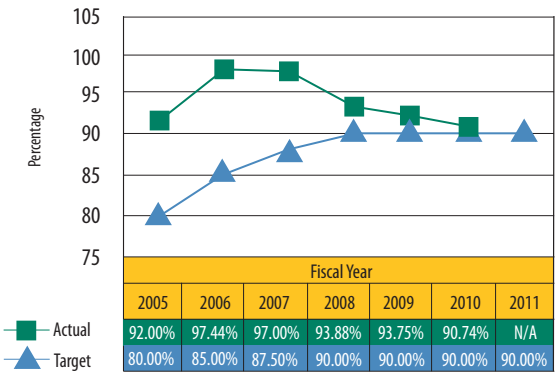
The IG's report also found that we needed to improve our award-fee contracting processes to meet acquisition outcomes. Again, we revised the AMS to expand language pertaining to the proper selection and documentation of contract type, including detailed guidance on how to establish effective award fee plans and guidance and standards for instituting measurable award fee criteria. Lastly, the IG found several examples of procurement integrity issues among our acquisition workforce. We launched a rigorous agency-wide FY 2010 training curriculum, to include procurement ethics training for acquisition personnel presented by our Office of General Counsel.

Through increased emphasis on management and oversight of the procurement process, we will ensure that contract planning, administration, and oversight efficiently and effectively support our transition to NextGen.

CUSTOMER SATISFACTION

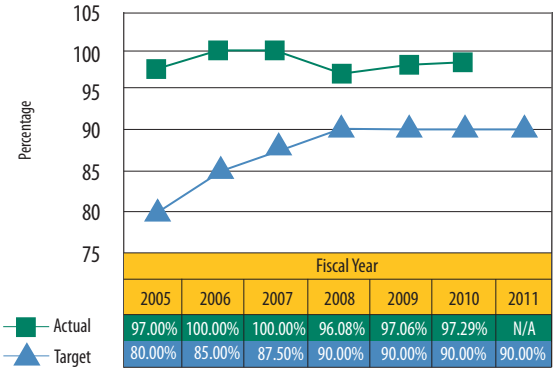
CUSTOMER SATISFACTION	
TARGET	Achieve an average score for the FAA surveys on the ACSI at or above the FY 2009 average Federal Regulatory Agency score of 64.
RESULT	**67.91 ACSI score**
PUBLIC BENEFIT	This measure tracks trends in public benefit and perceptions regarding the services provided by the FAA. It is a uniform and independent method of providing feedback from multiple groups served by the FAA. Offices responsible for the various surveys are also responsible for creating and implementing action plans to increase customer satisfaction scores. Information garnered from these surveys help the FAA identify public issues and rectify them.

CRITICAL ACQUISITIONS ON SCHEDULE
Percentage of Programs Meeting Scheduled Milestones



Fiscal Year	2005	2006	2007	2008	2009	2010	2011
Actual	92.00%	97.44%	97.00%	93.88%	93.75%	90.74%	N/A
Target	80.00%	85.00%	87.50%	90.00%	90.00%	90.00%	90.00%

CRITICAL ACQUISITIONS ON BUDGET
Percentage of Programs Within Planned Budget



Fiscal Year	2005	2006	2007	2008	2009	2010	2011
Actual	97.00%	100.00%	100.00%	96.08%	97.06%	97.29%	N/A
Target	80.00%	85.00%	87.50%	90.00%	90.00%	90.00%	90.00%

[3] Although not funded yet, it is recognized here in the FY 2010 PAR.

The American Customer Satisfaction Index (ACSI) is a uniform and independent measure of household consumption experience. The ACSI tracks trends in customer satisfaction and provides benchmarking insights of the consumer economy for companies, industry trade associations, and Government agencies. This measure provides a recognized, independent source of customer satisfaction information that can be used to benchmark against other ACSI scores for regulatory and Federal Government satisfaction indices. The FAA's survey includes nine customer bases: commercial pilots, general aviation pilots, mechanics, repair stations, air carriers, and customers of the ATO's services, manufacturers, airports, and Web users.

All surveys are baselined and validated, and weighted within the approved schedule. The annual target is to meet or exceed the Federal Regulatory Agency average for the prior fiscal year, which is reported by ACSI. The FAA has now baselined all nine of its ACSI surveys, following a three-effort to baseline or rebaseline all of its surveys for accuracy. We are working to ensure that survey questions are appropriate and solicit valuable fact-based data that can be used to solve issues and increase customer satisfaction.

Two surveys are annual: the Air Traffic Services survey and the FAA Web site survey. All other surveys are biennial: Commercial Pilots, General Aviation Pilots, Aviation Maintenance Technicians, Repair Stations, Air Carriers, Airports, and Manufacturers surveys. After each survey, an action plan is created to correct specific issues identified. In FY 2010, the ATO survey results were 66 and weighted at 29 percent of the total. The Aviation Maintenance Technicians survey results were 58 and weighted at 29 percent. The Airports survey score was 77 and weighted at 29 percent. The FAA Web site survey was 74 and weighted at 13 percent of the total. These four surveys combined for a final score of 67.91, exceeding our target of 64.

INFORMATION SECURITY

INFORMATION SECURITY	
TARGET	Achieve zero cyber-security events that disable or significantly degrade FAA services.
RESULT	Zero cyber security events for the fifth consecutive year.
PUBLIC BENEFIT	The benefit to the public is a safe and secure NAS with no disruption of service due to a cyber event.

Hackers seek to disrupt or exploit critical infrastructure across the United States. One piece of critical infrastructure, as identified by the President in the Homeland Security Presidential Directive-7, is the country's transportation system, including aviation. Accordingly, the FAA—whose mission is to provide a safe, efficient, and responsive air transportation system that serves the Nation and supports the global aviation community—must be protected against the threat of cyber attacks.

While the number of events detected has increased dramatically during the past year to over 12.6 million per day, there were no cyber events that disabled or seriously degraded FAA services. This was due to advances made in the infusion of technology into the DOT/FAA Cyber Security Management Center (CSMC) and the quality of the analysts looking at the alerts. These advances include mapping, logging, sensor placement, development of secure enclaves, focused protection of executive systems, and Intrusion Protection Systems. Additionally, information system security managers within each LOB have been able to react quickly to changing events.

In FY 2010, the FAA sustained the existing level of public confidence in the security of information technology-related systems that support domestic and international air travel. To improve further, the FAA is working to progress in areas such as increased trust, visibility, and information sharing. To support these efforts in FY 2010, working groups were established to address sensor placement within the NAS and foster stakeholder communication and trust.

The CSMC works with excellent Federal and commercial partners in an effort to improve our security posture. These partners, with their development and support staff, keep the operating systems software used throughout the agency up-to-date and secure.

In the FY 2010 Management Challenges, the Inspector General identified the FAA's challenge to enhance the ability to combat cyber attacks and improve the governance of information technology resources. The FAA's Information Systems Security (ISS) Program describes the approach for conducting ISS compliance reviews for all FAA systems. Our Compliance Program meets federal, Departmental, and agency policies that require the regular testing and evaluation of information security policies, procedures, and practices. During FY 2010, we completed a comprehensive assessment of 72 systems (100 percent) to ensure that policies were correctly implemented and providing full protection to FAA systems. We also successfully completed 221 system assessments (100 percent) and developed 10 Plan of Action Milestones to shore up potential weaknesses and provide iron-clad defenses.

In order to strengthen the privacy protection program to secure personally identifiable information (PII), the FAA is actively establishing appropriate administrative, technical, and physical safeguards. This is reflected in the phased social security number (SSN) reduction/ elimination plan to reduce the unnecessary collection and use of SSNs and eliminate such use throughout the agency where possible and practical. In FY 2010, we completed Phase One efforts to identify, reduce, protect, and prevent the use of SSNs across the agency. We also laid critical groundwork to usher in Phase Two in FY 2011. This second phase will ensure that digital sensitive PII on the FAA network is identified and protected from misuse or violation of the provisions of DOT policies. Future phases will ensure full compliance with the OMB mandate that requires the reduction or elimination of SSNs from FAA systems.

The future of information security in the FAA includes refinement of agency services, additional performance measures clarification, and increased use of new technologies to protect the agency and the flying public. Once NextGen's ERAM is in place, we will have a unique opportunity to increase information security through gaining access to critical systems and working on projects to install and deploy sensors.

CONTINUITY OF OPERATIONS

CONTINUITY OF OPERATIONS	
TARGET	Exceed FEMA continuity readiness levels by 5%.
RESULT	**84%** ahead of FEMA requirements
PUBLIC BENEFIT	The ability of the FAA to achieve continuity of operations quickly in response to a variety of incidents and/or disasters ensures that the national airspace remains operational.

Achieving readiness levels earlier than the Federal Emergency Management Agency (FEMA) requires enhances our ability to respond to crises rapidly and effectively, including security-related threats and natural disasters. In addition, by achieving this measure, we demonstrate to other Federal agencies and the public that the FAA stands ready to respond in a timely fashion to any issue or event. Readiness levels are established and designed to place departments and agencies in a readiness posture that will ensure minimal disruptions, if any, in functions that are essential to its mission.

In the absence of a "real-world" event, the FAA routinely participates in a continuity of operations exercise. During this exercise, the FAA is required by FEMA to be capable of accomplishing specified tasks within 12 hours. The FAA achieved this level and exceeded its internal target by 5 percent by accomplishing all required tasks in 2 hours and 5 minutes, or 84 percent sooner than FEMA's requirement. These annual continuity of operations exercises take place on a varied schedule and are part of a larger-scale training and exercise program.

In FY 2010, we continued to build and improve emergency plans and preparedness tools to sustain essential services and provide for employee well-being during crisis events. For example, in addition to annual training for Continuity Cadre members, a continuity awareness briefing was provided for all non-Continuity Cadre personnel to increase their awareness of the FAA response to various emergencies and their role during the events. In addition, we continued development of a Web-based emergency operation information-sharing tool that creates a common operational picture and supports effective decision-making.

VERIFICATION AND VALIDATION OF PERFORMANCE INFORMATION

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

In addition to internal verification reviews, DOT independently verifies performance data. Also, the incidents that are included in several FAA safety performance measures—such as the Commercial Air Carrier Fatality Rate and General Aviation Fatal Accident Rate—require independent verification by the NTSB and the Bureau of Transportation Statistics. Data for these measures are not considered final until NTSB completes its report on each incident. (See **www.faa.gov/about/plans_reports** to review the FY 2010 Portfolio of Goals.)

COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

The internal review processes supports the integrity of performance data. At the beginning of each fiscal year, the FAA updates the Portfolio of Goals, a clearinghouse for accurate and detailed documentation on *Flight Plan* performance measures. This exhaustive report includes technical definitions for each measure, as well as data source information, statistical issues, and completeness and reliability statements. Where the criteria for targets have changed, it is noted and the changes are explained. To supplement the Portfolio of Goals, the agency conducts its own annual internal review of the verification processes used by all FAA organizations responsible for collecting and reporting performance data. The agency's full understanding of these processes allows it to provide complete and definitive documentation of results as required by auditors at the end of the year.

PROGRAM EVALUATIONS

Program evaluation is a major element of the Government Performance and Results Act. The statute calls for agencies to use program evaluations to assess the manner and extent to which Federal programs achieve intended objectives. While performance measures can show if we have achieved intended outcomes, program evaluations use analytical techniques to assess the extent to which programs contribute to their desired outcomes and trends. Understanding the results of these program evaluations enable us to initiate actions for improving program performance. Program evaluations or assessments are conducted by contractors, academic institutions, the DOT OIG, or the GAO.

The following are brief summaries of selected program evaluations conducted during FY 2010.

Aviation Safety Data Quality

In 2010, the GAO assessed the FAA's capacity to use available data to oversee aviation safety. The report was published in May and entitled Aviation Safety: Improved Data Quality and Analysis Capabilities Are Needed as FAA Plans a Risk-Based Approach to Safety Oversight. This congressionally requested report addressed the FAA's:

- Current and planned use of data to oversee aviation safety
- Access to data for monitoring aviation safety and the safety performance of various industry sectors
- Efforts to help ensure data quality.

Findings. The GAO found that while the FAA is developing and implementing new processes to ensure quality data, weaknesses persist:

- The FAA has identified and is addressing challenges to data usage for safety oversight:
  - Data are not coded to permit automated analysis.
  - Data from voluntary reporting programs have characteristics that impede analysis.
- The FAA is developing a plan for using data under the SMS, but the plan does not fully address data, analysis, and staffing requirements.
- The FAA has limited access to some voluntarily reported data and lacks key data to assess the safety performance of certain industry sectors:
  - Voluntary reporting programs generate safety information that is not available from other sources, although the data have some limitations.
  - Participants' concerns limit the FAA's access to voluntarily reported data.
  - The FAA lacks data to assess the safety of certain industry sectors.

Recommendations. The GAO recommendations to the FAA concerning aviation safety include increasing capacity to use data for oversight. This would entail:

- Developing a comprehensive data management plan
- Identifying and making attempts to address reasons for non-participation in voluntary reporting programs
- Applying data quality controls to more databases
- Developing capacity to mitigate risk within the NextGen implemented NAS.

Planned Actions. The FAA concurs with all four GAO recommendations and continues to take steps to address each of them. We are currently developing plans that include the agency's priorities and strategies for integrating safety management. A comprehensive plan details the relevant data challenges and requirements that the FAA must address to make the NAS even safer than it currently is. We are working to continuously improve and standardize guidelines for data quality control including data integration, processing, monitoring, and maintenance. To address carriers' non-participation in voluntary reporting programs, the agency promotes aviation safety data sharing through annual safety conferences and provides a free, comprehensive, secure Internet-based ASAP. We conducted a survey with non-participating carriers to learn the reason(s) why they have not voluntarily shared their safety data. To prepare for aviation safety in the NextGen environment, the FAA has been developing models and capability assessments to address the system-wide risks that may arise due to NextGen implementation. We recognize the importance of implementing data quality controls to increase the safety of the NAS. The transition from reactive risk-mitigation to proactive risk-mitigation has begun.

Next Generation Air Transportation Metrics

During FY 2010, the GAO also reviewed FAA's metrics for tracking the status of NextGen programs and the implementation of NextGen capabilities and the reliability of those metrics. This report also reviewed how the FAA is measuring the performance and outcomes of NextGen capabilities that are implemented. This report was published in July 2010 and entitled NextGen Air Transportation System: FAA's Metrics Can Be Used to Report on Status of Individual Programs, but Not of Overall NextGen Implementation or Outcomes.
Findings. The GAO found that:

- The FAA has metrics to report on program status but does not have metrics to measure overall implementation of NextGen capabilities:
  - The FAA uses programmatic metrics to provide updates on program status, but additional information and context could help observers and overseers understand problems.
  - The NextGen Solution Set approach encompasses program metric data and other initiatives and processes; however, it has yet to be fully developed.
- Metrics have yet to be developed to measure the performance of NextGen implementations in relation to specific NextGen goals, but some performance metrics are available for specific programs:
  - The FAA is considering a number of NextGen performance metrics, but little progress has been made.
  - The FAA reports some performance metrics for existing modernization and NextGen programs to the OMB, but these metrics are not always outcome-oriented.
  - Information on NextGen outcomes and performance is limited to FAA performance reporting.

Recommendations. The GAO remarks that while there are broad NextGen goals and a monitoring process in place, more specific goals, measures, and language should be developed to better monitor progress towards an efficiently-implemented NextGen. To facilitate this, the GAO provided the following specific recommendations:

- Clarify dispute resolution processes within the FAA's portfolio management structure.
- Develop a timeline and action plan to agree with stakeholders on a list of specific goals and outcome-based performance metrics for NextGen.

Planned Actions. The FAA response and planned actions are forthcoming.

Streamlined Environmental Impact Statement Process Evaluation

In FY 2010, a process evaluation entitled Streamlined Environmental Impact Statement Process was initiated. A final report on the findings and recommendations resulting from this evaluation will be available in FY 2011.

The NIEC complex features an air traffic control simulation area, a cockpit simulator, an unmanned aircraft system suite, a simulated tower cab interior, and a multi-purpose display area to provide a futuristic gate-to-gate picture of a NextGen flight.

Credit: FAA Image Gallery

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

As we transition the Nation's air transportation system into the next era, the availability of NextGen technologies is critical for improving the safety of our airways, expanding capacity, supporting the economic viability of aviation, and protecting the environment. With these new technologies comes the need for new procedures, new standards, and new roles and responsibilities for pilots and air traffic controllers. It's an ambitious undertaking—one that requires a substantial investment now to achieve success down the road. The FY 2010 budget for NextGen was $867.7 million; the total cost over the next 2 decades is estimated at approximately $20 billion. We anticipate that NextGen's eventual impact on the capacity and efficiency of our aviation system will result in cost savings to the flying public, to airlines, and within the FAA—particularly in terms of fewer flight delays (by an estimated 20 percent in 2018) and the burning of cleaner, more efficient fuels. But with NextGen's high price tag, we are mindful that we need to spend taxpayer dollars responsibly, particularly during an economic slowdown.

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

The tight Federal budget serves as a reminder to us that in a period of economic uncertainty, the need for vigilance has never been greater. Aviation will be an important factor in the Nation's economic recovery, and building our next generation air traffic control system will be the springboard to make it happen. While NextGen is being phased in, the FAA has used Federal stimulus funds to invest in the upkeep of the current infrastructure. The American Recovery and Reinvestment Act of 2009 included $1.1 billion in grants for airport improvements (such as runway and terminal rehabilitation) and $200 million for upgrades to facilities and equipment (such as modernizing air traffic control towers, power systems, lighting, and navigation).

Across all of the FAA's initiatives and lines of business, we emphasize the importance of good financial management and cost control using best practices from the private sector. We continue to implement a centrally-managed initiative to reduce operating costs, improve financial and procurement oversight, and provide the tools and training necessary for working within budget and on schedule. Ongoing enhancements to our business processes focus on supplying management with more timely and accurate financial information to assist decision-making and improve operations. We are developing tracking programs with metrics for corrective action so that we can monitor and report on how well we are meeting performance measures and targets.

- We achieved an unqualified opinion on our FY 2010 financial statements with no material weakness.
- Our Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES) initiative achieved over $21 million in cost savings. Since FY 2006, cost savings from the initiative have totaled more than $66 million.
- The Association of Government Accountants awarded us the Certificate of Excellence in Accountability Reporting for our FY 2009 PAR. This is considered the highest form of recognition in Federal Government management reporting. The FAA has won the award six times since 2003.
- We received our seventh consecutive award from the League of American Communication Professionals for the FY 2009 Citizens' Report, recognizing it as a top-quality report.
- The majority of our employees are now on the pay-for-performance system, including our executives. This means that performance targets must be achieved before annual pay raises are calculated. As part of this system, we provide incentives to ensure quality work and reward innovation.

- More than 90 percent of our project management initiatives are on time and on budget.
- Since the 2005 implementation of a contract review process for all contracts valued at $10 million or more, we have evaluated over 275 proposed acquisitions with an estimated contract value of over $32 billion.
- The FAA is implementing DOT's Federal real property management initiatives. Since they were established, the department has removed more than $341 million in real property assets from the FAA portfolio. Savings have been applied toward future disposition efforts, as well as to updates, upgrades, repairs, and renovations of current assets.

We are making substantial strides in our ability to manage costs and projects efficiently, but we recognize that there is still more to do. As the NextGen budget progresses, prudent fiscal and project management becomes our biggest challenge. We will continue our efforts to find innovative solutions for reducing or avoiding unnecessary costs, and we will work with Federal and industry partners to identify priorities and strategize actions to realize the near-term and mid-term benefits of NextGen. Our goal is to move the national air traffic control system safely, efficiently, and responsibly into the future, and to do it in a manner that reflects the highest standards of fiscal responsibility.

Ramesh K. Punwani
Assistant Administrator for Financial Services/Chief Financial Officer
November 8, 2010

Memorandum

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

Subject: ACTION: Quality Control Review of Audited Financial Statements for fiscal years 2010 and 2009, Federal Aviation Administration
Report Number: QC-2011-011

Date: November 10, 2010

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: JA-20

To: The Secretary
Federal Aviation Administrator

I respectfully submit our report on the Quality Control Review of the Federal Aviation Administration's (FAA) audited Financial Statements for Fiscal Years (FY) 2010 and 2009.

The audit of FAA's Financial Statements as of and for the years ended September 30, 2010, and September 30, 2009, was completed by Clifton Gunderson LLP (Clifton Gunderson), of Calverton, Maryland (see Attachment), under contract to the Office of Inspector General (OIG). 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 prescribed by the Comptroller General of the United States; and Office of Management and Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended.

Clifton Gunderson concluded that the financial statements present fairly, in all material respects, FAA's financial position as of September 30, 2010, and September 30, 2009, and its net costs, changes in net position, and budgetary resources, for the years then ended.

We congratulate FAA for obtaining clean audit opinions with no material weaknesses for 3 consecutive years. FAA should be commended for making significant progress in correcting control deficiencies pertaining to its Property, Plant, and Equipment (PP&E) accounting and reporting, which is no longer considered a significant deficiency. However, due to the magnitude and

complexity of FAA's PP&E accounting and reporting, continued management attention would be prudent.

Clifton Gunderson FY 2010 Audit Report

Clifton Gunderson reported one significant deficiency in internal control and no instances of reportable noncompliance with laws and regulations.

Significant Deficiency

1. **Controls over Financial Systems and Applications** - FAA needs to implement effective security controls to protect its financial information from unauthorized access, modification, and disclosure throughout the year.

Clifton Gunderson made two recommendations to FAA to strengthen its financial systems and applications controls. We agree with both recommendations, and are therefore making no additional recommendations. FAA officials concurred with the significant deficiency and the recommendations, and committed to implement corrective actions by April 30, 2011. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the recommendations are subject to follow up.

Our review disclosed no instances in which Clifton Gunderson did not comply, in all material respects, with applicable auditing standards.

We appreciate the cooperation and assistance of FAA representatives, the Office of Financial Management, and Clifton Gunderson. If we can answer any questions, please call me at (202) 366-1959; Lou Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1427; or Earl Hedges, Acting Assistant Inspector General for Financial and Information Technology Audits, at (410) 962-1729.

Attachment

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Clifton Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

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

In our audit of the U.S. Department of Transportation (DOT), Federal Aviation Administration (FAA) for fiscal year (FY) 2010 we found:

- The consolidated balance sheets of FAA as of September 30, 2010 and 2009, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources for the years then ended (hereinafter referred to as "consolidated financial statements") are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- No material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, although internal control could be improved;
- Significant progress has been made in FY 2010 on the control deficiency condition noted in the FY 2009 auditor's report relating to Property Plant & Equipment Accounting and Reporting. Accordingly, this matter is no longer considered a significant deficiency. However, a new significant deficiency was identified during our FY 2010 audit; and
- No reportable noncompliance with laws and regulations we tested, including the Federal Financial Management Improvement Act of 1996.

The following sections discuss in more detail: (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis (MD&A) and other supplementary information, (3) our audit objectives, scope and methodology, and (4) agency comments and our evaluation.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the accompanying consolidated financial statements including the accompanying notes present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States, FAA's assets, liabilities, and net position as of September 30, 2010 and 2009, and net costs; changes in net position; and budgetary resources for the years then ended.

As discussed in Note 1E, *Summary of Significant Accounting Policies*, and Note 12, *Earmarked Funds*, the accompanying financial statements reflect actual excise tax revenues collected through June 30, 2010 and excise tax revenues estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2010.

CONSIDERATION OF INTERNAL CONTROL

In planning and performing our audit, we considered FAA's internal control over financial reporting as a basis for designing our auditing procedures and to comply with the Office of Management and Budget (OMB) audit guidance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting and compliance or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting or on management's assertion on internal control included in the MD&A.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in **Exhibit I** to be a significant deficiency in internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described in **Exhibit I** is a material weakness.

We also noted certain other nonreportable matters involving internal control and its operation that we will communicate in a separate letter to FAA management.

SYSTEMS' COMPLIANCE WITH FFMIA REQUIREMENTS

Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether the financial management systems used by FAA substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The objective of our audit was not to provide an opinion on compliance with FFMIA. Accordingly, we do not express such an opinion. However, our work disclosed no instances in which FAA's financial management systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards or the SGL at the transaction level.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of FAA's compliance with selected provisions of laws and regulations for FY 2010 disclosed no instances of noncompliance that would be reportable under United States generally accepted government auditing standards or OMB audit guidance. However, the object of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

STATUS OF PRIOR YEAR'S CONTROL DEFICIENCIES

As required by United States generally accepted government auditing standards and OMB Bulletin No. 07-04, as amended, we have reviewed the status of FAA's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditor's Report dated November 12, 2009.

The prior year audit report noted one control deficiency: *Property, Plant & Equipment Accounting and Reporting*. As noted in **Exhibit II**, FAA management completed a major property existence evaluation process in FY 2010, and has implemented substantial changes to its policies and procedures in this area. Accordingly, the prior year findings have been substantially resolved, and this matter is no longer considered a Significant Deficiency for purposes of this report.

CONSISTENCY OF OTHER INFORMATION

FAA Management's Discussion and Analysis (MD&A) and other required supplementary information (including stewardship information) is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Other information, exclusive of the MD&A and the Financial Statements sections in the table of contents of the FY 2010 Performance and Accountability Report, is presented for additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

OBJECTIVES, SCOPE AND METHODOLOGY

FAA management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA), are met, (3) ensuring that FAA's financial management systems substantially comply with FFMIA requirements, and (4) complying with other applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. We are also responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether FAA's financial management systems substantially comply with the three FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Performance and Accountability Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of FAA and its operations, including its internal control related to financial reporting (including safeguarding of assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority), (5) tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control, (6) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA, (7) tested whether FAA's financial management systems substantially complied with the three FFMIA requirements, and (8) tested compliance with selected provisions of certain laws and regulations.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to FAA. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to FAA's financial statements for the fiscal year ended September 30, 2010. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to the financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB guidance. We believe that our audits provide a reasonable basis for our opinion.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on this report (Exhibit II), FAA concurred with the facts and conclusions in our report. We did not audit FAA's response and, accordingly, we express no opinion on it.

****

This report is intended solely for the information and use of DOT and FAA's management, DOT's Office of Inspector General, OMB, the 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.

Clifton Gunderson LLP

Calverton, Maryland
November 8, 2010

EXHIBIT I

DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
CONSIDERATION OF INTERNAL CONTROL
SIGNIFICANT DEFICIENCY
September 30, 2010

Controls over Financial Systems and Applications

Background and Control Deficiency Assessment Criteria:
The information systems relevant to financial reporting objectives include automated and/or manual controls over records established to initiate, authorize, record, process, and report entity transactions. These controls also include the processing and maintenance of information in the general ledger accounting system, for the accountability and reporting of budgetary and proprietary accounting information, the related assets, liabilities, and equity. The quality of this information affects management's ability to make appropriate decisions in controlling the entity's activities and to prepare reliable financial reports.

The extent and nature of these risks is dependent upon the effective implementation of internal controls to ensure the integrity of information processed and maintained. For example, multiple users, either external or internal, may access a common database of information that affects financial reporting. In such circumstances, a lack of control at a single user entry point might compromise the security of the entire database, potentially resulting in improper changes to or destruction of data. When IT personnel or users are given, or can gain, access privileges beyond those necessary to perform their assigned duties, a breakdown in segregation of duties can occur. This could result in unauthorized transactions or changes to programs or data that affect the integrity of information used to produce the financial statements.

Monitoring of internal controls is a key control process to determine appropriateness of the design of controls, the effectiveness of the controls, and the need for corrective actions, and whether additional safe guards and/or enhancements should be made to the internal controls as they mature. Monitoring is done to ensure that controls continue to operate effectively. For example, if the timeliness of software patching and upgrades are not monitored, the software may be vulnerable to unauthorized access, modification, disclosure, loss or impairment. Monitoring of controls is accomplished through ongoing monitoring activities, independent evaluations, or a combination of both.

Conditions: The Department of Transportation's (DOT) Enterprise Service Center (ESC) provides financial transactions processing and reporting services to FAA. The ESC has provided FAA with a Statement on Auditing Standards (SAS) No. 70, Service Organizations, Report on Controls Placed in Operation and Tests of Operating Effectiveness of the general, applications and operational controls related to the ESC for the nine-month period ended June 30, 2010. In its report dated July 30, 2010, the Independent Service Auditor (ISA) qualified its opinion on the operating effectiveness of ESC's controls.

FAA's general ledger system, Delphi, resides on an operating system for which the ESC database vendor stopped providing security patches and those security patches that were applied were not

applied timely. ESC had not alerted FAA to the security life cycle risks posed by the impending obsolescence of the Delphi operating system. Accordingly, this poses risk to FAA, that its general ledger system's database has not been updated to protect against known security vulnerabilities.

In its report, the ISA noted that ESC's configuration management controls did not operate effectively which impacted its access controls. ESC did not adequately consider the security of the Delphi application in the system development life cycle to appropriately plan and migrate Delphi to an operating system that will be supported by the database vendor. ESC's monitoring and risk mitigation process was not effective in ferreting out risk implications of the impending software obsolescence. In a separate report to DOT management, we recommended that the ESC promptly migrate the Delphi application to an operating system supported by the database vendor and develop and implement a system development life cycle process to plan for the deployment and retirement of information technology resources.

The lack of communication between FAA and ESC about this deficiency prevented FAA from evaluating the impact of this weakness in a timely manner, and ultimately implementing effective security controls to protect its information from unauthorized access, modification, and disclosure during the year.

Recommendations:

1. We recommend that FAA management:
    - **a)** Continue to assess the impact that the SAS 70 findings have on its financial operations, and continue to focus its efforts on reducing the risk of errors in its financial statements through the use of compensating controls.
    - **b)** Request an action plan from ESC to resolve SAS 70 findings, and request periodic reports from ESC on the implementation of such action plan.

EXHIBIT II

DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
INDEPENDENT AUDITOR'S REPORT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
September 30, 2010

Prior Year Condition	Status As Reported at September 30, 2009	Status as of September 30, 2010
Property, Plant and Equipment, Accounting and Reporting	***Significant Deficiency:*** Weaknesses were noted in controls over the following areas: 1) Untimely removal of retired personal property assets from the accounting system 2) CIP additions 3) Quarterly PP&E accrual 4) Analysis of assets not in use 5) Property asset descriptions	FAA management completed a major property existence evaluation process in FY 2010, and has implemented substantial changes to its policies and procedures in these areas. FAA needs to continue to monitor this area of its operations; however, for purposes of this report, these matters are no longer considered a significant deficiency.

EXHIBIT III

DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
MANAGEMENT'S RESPONSE TO FY 2010
INDEPENDENT AUDITOR'S REPORT
November 8, 2010

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

Assistant Administrator for Financial Services and
Chief Financial Officer

800 Independence Avenue, SW.
Washington, DC 20591

NOV 0 8 2010

Mr. Sal P. Ercolano, Jr., Partner
Clifton Gunderson, LLP
11710 Beltsville Drive, Suite 300
Calverton, Maryland 20705

Dear Mr. Ercolano:

We have received your Independent Auditor's Report related to the Federal Aviation Administration's (FAA's) fiscal year 2010 consolidated financial statements, and offer the following response.

The Office of Financial Services, together with the Chief Information Officer (CIO) and the Enterprise Services Center (ESC), will address the information technology significant deficiency as identified in the audit report. Specifically, I will request a corrective action plan from the ESC by December 31, 2010. The CIO and I will monitor implementation of the plan throughout the corrective action process. Additionally, by April 30, 2011, we will implement a quarterly process of reassessing the related risk to the FAA's consolidated financial statements, and will issue the first documented reassessment by that date.

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

Sincerely,

Ramesh K. Punwani

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

Assets	2010	2009
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 4,599,674	$ 4,064,759
Investments, net (Note 3)	8,551,547	9,170,185
Accounts receivable, prepayments, and other (Note 4)	235,156	286,896
Total intragovernmental	13,386,377	13,521,840
Accounts receivable, prepayments, and other, net (Note 4)	114,779	98,433
Inventory, operating materials, and supplies, net (Note 5)	593,553	551,127
Property, plant, and equipment, net (Notes 6 and 9)	13,230,400	13,740,336
Total assets	$ 27,325,109	$ 27,911,736
Liabilities		
Intragovernmental liabilities		
Accounts payable	$ 16,584	$ 25,160
Employee related and other (Note 8)	377,373	376,121
Total intragovernmental liabilities	393,957	401,281
Accounts payable	462,226	496,211
Grants payable	557,486	775,734
Environmental (Note 7, 15 & 16)	796,207	810,814
Employee related and other (Notes 8, 9 & 16)	1,115,861	1,054,851
Federal employee benefits (Note 10)	908,676	901,282
Total liabilities	4,234,413	4,440,173
Commitments and contingencies (Notes 9 & 16)		
Net position		
Unexpended appropriations- earmarked funds (Note 12)	1,151,893	1,142,193
Unexpended appropriations- other funds	207,341	1,008,244
Subtotal unexpended appropriations	1,359,234	2,150,437
Cumulative results of operations- earmarked funds (Note 12)	11,576,024	11,236,393
Cumulative results of operations- other funds	10,155,438	10,084,733
Subtotal cumulative results of operations	21,731,462	21,321,126
Total net position	23,090,696	23,471,563
Total liabilities and net position	$ 27,325,109	$ 27,911,736

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 (Note 11)	2010	2009
Air Traffic Organization		
Expenses	$ 11,389,169	$ 11,171,855
Less earned revenues	(212,373)	(271,754)
Net costs	11,176,796	10,900,101
Aviation Safety		
Expenses	1,324,397	1,187,156
Less earned revenues	(11,804)	(10,245)
Net costs	1,312,593	1,176,911
Airports		
Expenses	4,015,462	4,034,970
Less earned revenues	(216)	(369)
Net costs	4,015,246	4,034,601
Commercial Space Transportation		
Expenses	15,040	15,308
Net costs	15,040	15,308
Non line of business programs		
Regions and center operations and other programs		
Expenses	686,774	598,681
Less earned revenues	(310,451)	(334,870)
Net costs	376,323	263,811
Net cost of operations		
Total expenses	17,430,842	17,007,970
Less earned revenues	(534,844)	(617,238)
Total net cost	**$ 16,895,998**	**$ 16,390,732**

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)

	2010 **Earmarked** Unexpended appropriations	2010 **Other funds** Unexpended appropriations	2010 **Totals** Unexpended appropriations	2009 **Earmarked** Unexpended appropriations	2009 **Other funds** Unexpended appropriations	2009 **Totals** Unexpended appropriations
Beginning balances	$ 1,142,193	$ 1,008,244	$ 2,150,437	$ 920,894	$ -	$ 920,894
Budgetary financing sources						
Appropriations received (Note 14)	5,350,028	-	5,350,028	3,804,462	1,300,000	5,104,462
Appropriations transferred-in/out	1,372	-	1,372	3,700	-	3,700
Rescissions, cancellations and other	(62,877)	-	(62,877)	(104,787)	-	(104,787)
Appropriations used	(5,278,823)	(800,903)	(6,079,726)	(3,482,076)	(291,756)	(3,773,832)
Total budgetary financing sources	9,700	(800,903)	(791,203)	221,299	1,008,244	1,229,543
Ending balances	$ 1,151,893	$ 207,341	$ 1,359,234	$ 1,142,193	$ 1,008,244	$ 2,150,437

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)

	2010 **Earmarked** Cumulative results of operations	2010 **Other funds** Cumulative results of operations	2010 **Totals** Cumulative results of operations	2009 **Earmarked** Cumulative results of operations	2009 **Other funds** Cumulative results of operations	2009 **Totals** Cumulative results of operations
Beginning balances	$ 11,236,393	$ 10,084,733	$ 21,321,126	$ 11,182,229	$ 11,344,402	$ 22,526,631
Budgetary financing sources						
Appropriations used	5,278,823	800,903	6,079,726	3,482,076	291,756	3,773,832
Non-exchange revenue - excise taxes and other (Note 12)	10,829,747	-	10,829,747	10,884,331	1,441	10,885,772
Transfers-in/out without reimbursement	(202,694)	2	(202,692)	(135,549)	-	(135,549)
Other financing sources						
Donations and forfeitures of property		452	452	-	-	-
Transfers-in/out without reimbursement	(1,603,235)	1,603,235	-	(529,750)	528,645	(1,105)
Imputed financing from costs absorbed by others (Note 13)	538,640	60,461	599,101	610,150	52,127	662,277
Total financing sources	14,841,281	2,465,053	17,306,334	14,311,258	873,969	15,185,227
Net cost of operations	14,501,650	2,394,348	16,895,998	14,257,094	2,133,638	16,390,732
Net change	339,631	70,705	410,336	54,164	(1,259,669)	(1,205,505)
Ending balances	$ 11,576,024	$ 10,155,438	$ 21,731,462	$ 11,236,393	$ 10,084,733	$ 21,321,126

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)	**2010**	**2009**
Unobligated balance brought forward, transfers and other	$ 3,598,143	$ 2,822,280
Recoveries of prior year obligations	425,737	385,377
Budget authority	19,041,737	20,730,694
Spending authority from offsetting collections	4,795,635	6,164,596
Nonexpenditure transfers, net	(48,627)	(46,300)
Permanently not available	(3,521,002)	(3,744,234)
Total budgetary resources	$ 24,291,623	$ 26,312,413
Status of budgetary resources		
Obligations incurred	$ 20,969,718	$ 22,714,270
Unobligated balance available	1,704,024	1,707,455
Unobligated balance not available	1,617,881	1,890,688
Total status of budgetary resources	$ 24,291,623	$ 26,312,413
Change in obligated balance		
Obligated balance, net, beginning of period	$ 9,216,986	$ 8,471,544
Obligations incurred	20,969,718	22,714,270
Gross outlays	(20,938,189)	(21,553,160)
Recoveries of prior years unpaid obligations, actual	(425,737)	(385,377)
Change in uncollected customer payments from Federal sources	120,235	(30,291)
Obligated balance, net, end of period	$ 8,943,013	$ 9,216,986
Unpaid obligations	$ 9,285,957	$ 9,680,165
Uncollected customer payments from Federal sources	(342,944)	(463,179)
Obligated balance, net, end of period	$ 8,943,013	$ 9,216,986
Outlays		
Gross outlays	$ 20,938,189	$ 21,553,160
Collections, net of offsetting receipts	(4,915,870)	(6,134,305)
Distributed offsetting receipts	(12,776)	(49,703)
Net outlays	$ 16,009,543	$ 15,369,152

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 (FASAB), (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*.

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 then in turn transferred to the Operations General Fund, which is supplemented by appropriations from the U.S. Treasury. Expenditures for operational activities, whether originally funded by the AATF or the General Fund of the U.S. Treasury, are generally made from the Operations General Fund.

- **Aviation Insurance Revolving Fund**. Revolving funds are accounts established by law to finance a continuing cycle of operations with receipts derived from such operations usually available in their entirety for use by the fund without further action by the U.S. Congress. The Aviation Insurance Revolving Fund provides products that address the insurance needs of the U.S. domestic airline industry not adequately met by the commercial insurance market. FAA is currently providing war risk hull loss and passenger, crew, and third-party liability insurance as required by the Homeland Security Act of 2002 as amended by Public Law 111-249 (9/30/2010) until December 31, 2010, and intends to extend coverage under a current Presidential Determination until September 30, 2011.
- **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.
- **American Recovery and Reinvestment Act of 2009.** FAA received supplemental General Fund appropriations in FY 2009 for Grant-In-Aid to Airports and Facilities and Equipment activities. The American Recovery and Reinvestment Act of 2009 is discussed in detail in letter X of this Note.
- 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 2010 and 2009, FAA was accountable for amounts made available in appropriations laws from the AATF, Revolving Funds, a Special Fund, and General Fund appropriations. Additionally, the American Recovery and Reinvestment Act provided supplemental General Fund appropriations to FAA in FY 2009. 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.

Intra-governmental 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 "intra-governmental." 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 intra-governmental revenue with costs that are incurred to produce public and intra-governmental 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 excise taxes are collected to determine how they should be distributed to specific earmarked funds. Therefore, the U.S. Treasury makes initial semi-monthly distributions to earmarked funds based on estimates prepared by its Office of Tax Analysis (OTA). These estimates are based on historical excise tax data applied to current excise tax receipts. FAA's September 30, 2010, financial statements reflect excise taxes certified (as actual collections) by IRS through June 30, 2010, and excise taxes estimated by OTA for the period July 1 through September 30, 2010, as specified by SFFAS Number 7, Accounting for Revenue and Other Financing Sources. Actual excise tax collections data for the quarter ended September 30, 2010, will not be available from the IRS until January 2011. When actual amounts are certified by the IRS, generally three to four months after each quarter-end, adjustments are made to the AATF to account for the difference. Historically, actual excise tax collections certified by the IRS for the fourth quarter of the fiscal year have not been materially different from the OTA's estimate. Additional information on this subject is disclosed in Note 12.

The AATF also earns interest from investments in U.S. Government securities. Interest income is recognized as revenue on the accrual basis of such collections for those quarters.

Appropriations are recognized as a financing source when expended. Revenues from services provided by 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 $100 thousand and the useful life equals or exceeds two 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) two years after the actual payment of expenses by the DOL. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

R. Retirement Plan

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

U. Environmental Liabilities

FAA recognizes two types of environmental liabilities: environmental remediation, and cleanup and decommissioning. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated site into compliance with applicable environmental standards. The increase or decrease in the annual liability is charged to current year expense.

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

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

V. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. 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. American Recovery and Reinvestment Act of 2009

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

FAA received supplemental funding from ARRA of $1.1 billion for Grant-In -Aid to Airports and $200 million for Facilities and Equipment (F&E) activities. The F&E funding is to be used for improvements to power systems, air route traffic control centers, air traffic control towers, terminal radar approach control facilities and navigation and landing equipment. ARRA also stipulated that priority be given to F&E activities that will be completed within two years of enactment of this act or by February 17, 2011. As of September 30, 2010, FAA has obligated $198.3 million for F&E projects and disbursed $74.7 million.

The Grant-In-Aid to Airports funding was to be used for discretionary grants and for the procurement, installation and commissioning of runway incursion prevention devices and systems at airports. ARRA also stipulated that priority be given to Grant-In-Aid to Airport projects that will be completed within two years of enactment of this act or by February 17, 2011. Of the $1.1 billion ARRA funding for Grant-In-Aid to Airports, an amount not to exceed $2.2 million may be used to fund the award and oversight of grants made under this provision. As of September 30, 2010, FAA has awarded $1.1 billion in Grant-In-Aid to Airport grants and disbursed $902.9 million of the grant awards. Oversight costs for ARRA funded grants as of September 30, 2010, are $1.4 million.

Note 2. Fund Balance with Treasury

Fund balance with Treasury account balances as of September 30, 2010 and 2009 were:

	2010	2009
Earmarked and other funds	$ 3,417,820	$ 3,691,915
Franchise fund	294,076	322,455
Aviation Insurance Revolving Fund	6,048	50,389
AATF	881,730	-
Total	$ 4,599,674	$ 4,064,759

Status of fund balance with Treasury

Unobligated balance		
Available	$ 1,704,024	$ 1,707,455
Not available	1,617,881	1,890,688
Obligated balance not yet disbursed	1,277,769	466,616
Total	$ 4,599,674	$ 4,064,759

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, 2010 and 2009, FAA's investment balances were as follows:

	2010			
Intragovernmental Securities	Cost	Amortized (Premium) Discount	Investments (Net)	Market Value Disclosure
Non-marketable par value	$ 7,045,359	$ -	$ 7,045,359	$ 7,045,359
Market-based	1,451,884	11,176	1,463,060	1,463,060
Subtotal	8,497,243	11,176	8,508,419	8,508,419
Accrued interest	43,128		43,128	
Total Intragovernmental Securities	$ 8,540,371	$ 11,176	$ 8,551,547	$ 8,508,419

	2009			
Intragovernmental Securities	Cost	Amortized (Premium) Discount	Investments (Net)	Market Value Disclosure
Non-marketable par value	$ 7,829,468	$ -	$ 7,829,468	$ 7,829,468
Market-based	1,289,850	(6,770)	1,283,080	1,283,080
Subtotal	9,119,318	(6,770)	9,112,548	9,112,548
Accrued nterest	57,637		57,637	
Total Intragovernmental Securities	$ 9,176,955	$ (6,770)	$ 9,170,185	$ 9,112,548

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, 2010 and 2009, $7.0 billion and $7.8 billion were invested respectively in U.S. Treasury Certificates of Indebtedness. Nonmarketable par value Treasury Certificates of Indebtedness are special series debt securities issued by the Bureau of 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, 2010, mature on various dates through June 30, 2011, and investments as of September 30, 2009, matured on various dates through June 30, 2010. 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 2010 and FY 2009 was 2.5% and 3.2%, 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, 2010, these nonmarketable, market-based securities had maturity dates ranging from October 2010 to November 2014 and have an average rate of return of approximately 2.88%.

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, 2010 and 2009 were comprised of the following:

	2010	2009
Intragovernmental		
Accounts receivable	$ 67,988	$ 154,941
Prepayments and other	167,168	131,955
Intragovernmental total	235,156	286,896
With the public		
Accounts receivable, net	48,371	60,349
Prepayments	24,246	37,567
Deposits in transit and other	42,162	517
With the public total	114,779	98,433
Total accounts receivable, prepayments, and other	$ 349,935	$ 385,329

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 $18.9 million and $18.5 million, as of September 30, 2010 and 2009.

Note 5. Inventory, Operating Materials, and Supplies

As of September 30, 2010 and 2009, inventory, operating materials, and supplies were:

	2010		
Inventory	Cost	Allowance	Net
Held for sale	$ 87,573	$ -	$ 87,573
Held for repair	518,277	(112,840)	405,437
Raw materials, finished goods and other	47,166	(10,798)	36,368
Excess, obsolete, and unserviceable	12,678	(12,678)	-
Inventory total	665,694	(136,316)	529,378
Operating materials and supplies			
Held for use	47,890	-	47,890
Held for repair	32,570	(16,285)	16,285
Excess, obsolete, and unserviceable	629	(629)	-
Operating materials and supplies total	81,089	(16,914)	64,175
Total inventory, operating materials, and supplies	$ 746,783	$ (153,230)	$ 593,553

	2009		
Inventory	Cost	Allowance	Net
Held for sale	$ 80,406	$ (84)	$ 80,322
Held for repair	493,356	(99,909)	393,447
Raw materials, finished goods and other	23,410	(10,591)	12,819
Excess, obsolete, and unserviceable	4,984	(4,984)	-
Inventory total	602,156	(115,568)	486,588
Operating materials and supplies			
Held for use	45,498	(165)	45,333
Held for repair	38,412	(19,206)	19,206
Excess, obsolete, and unserviceable, net	411	(411)	-
Operating materials and supplies total	84,321	(19,782)	64,539
Total inventory, operating materials, and supplies	$ 686,477	$ (135,350)	$ 551,127

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, 2010 and 2009 were:

	2010		
Class of fixed asset	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	$ 5,324,470	$ (2,915,276)	$ 2,409,194
Personal property	18,610,072	(10,790,407)	7,819,665
Assets under capital lease (Note 9)	204,581	(104,678)	99,903
Construction in progress	2,900,743	-	2,900,743
Property not in use	65,718	(64,823)	895
Total property, plant and equipment	$ 27,105,584	$ (13,875,184)	$ 13,230,400

	2009		
Class of fixed asset	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	$ 5,089,354	$ (2,732,102)	$ 2,357,252
Personal property	19,558,819	(11,081,159)	8,477,660
Assets under capital lease (Note 9)	204,485	(96,036)	108,449
Construction in progress	2,770,846	-	2,770,846
Property not in use	176,282	(150,153)	26,129
Total property, plant and equipment	$ 27,799,786	$ (14,059,450)	$ 13,740,336

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.

The FAA is currently developing and testing the En Route Automation Modernization (ERAM) system to upgrade the management of air traffic in the en route space and enable the implementation of NextGen capabilities. As of September 30, 2010, construction in progress includes $1.7 billion related to the ERAM system.

While the deployment schedule for ERAM is not finalized and will depend upon results of continued testing of the system, FAA expects to deploy the ERAM system at 20 air route traffic control centers over the next several years. When fully deployed and operational, the ERAM system will replace three legacy air traffic systems currently being depreciated over service lives ranging from 5-20 years.

The net acquisition cost of the three air traffic legacy systems currently in use at September 30, 2010 is $2,108 million with a net book value of $810 million. Depreciation on these air traffic legacy systems was $136 million and $134 million in FY 2010 and 2009, respectively. As the ERAM deployment schedule becomes more certain, FAA will re-evaluate the remaining service lives of the legacy air traffic systems and its estimated value at disposal. Adjustments will then be made to FAA accounting records in accordance with applicable accounting standards.

FAA conducted an in depth review and validation of its personal property assets in FY2010. The review included a statistical sampling and validation of many personal property assets across the United States and Canada to confirm the asset's existence. As a result of the review, FAA adjusted its property records in FY 2010 for assets previously retired but not recorded in the appropriate year's financial statements. The adjustments made to FAA's accounting records were not material to FAA's FY 2010 or prior year financial statements.

Note 7. Environmental Liabilities

FAA's environmental liabilities as of September 30, 2010 and 2009 were:

	2010	2009
Environmental remediation	$ 542,124	$ 555,421
Environmental cleanup and decommissioning	254,083	255,393
Total environmental liabilities	$ 796,207	$ 810,814

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

Note 8. Employee-Related and Other Liabilities

As of September 30, 2010 and 2009, FAA's employee related and other liabilities were:

	2010		
	Non-current liabilities	Current liabilities	Total
Intragovernmental			
Advances received	$ -	$ 35,468	$ 35,468
Accrued payroll & benefits payable to other agencies	-	86,547	86,547
Other liabilities	-	15,687	15,687
Liabilities covered by budgetary or other resources	-	137,702	137,702
Federal Employees' Compensation Act payable	118,930	92,469	211,399
Other	-	28,272	28,272
Liabilities not covered by budgetary or other resources	118,930	120,741	239,671
Intragovernmental total	118,930	258,443	377,373
With the public			
Advances received and other	-	90,900	90,900
Accrued payroll & benefits payable to employees	-	300,365	300,365
Liabilities covered by budgetary or other resources	-	391,265	391,265
Accrued unfunded annual & other leave & assoc. benefits	49,749	354,707	404,456
Sick leave compensation benefits for air traffic controllers	57,568	25,786	83,354
Capital leases (Note 9)	85,452	21,506	106,958
Legal claims	-	72,195	72,195
Other accrued liabilities	57,633	-	57,633
Liabilities not covered by budgetary or other resources	250,402	474,194	724,596
Public total	250,402	865,459	1,115,861
Total employee related and other liabilities	$ 369,332	$ 1,123,902	$ 1,493,234

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 two years after it pays such claims, FAA's liability accrued as of September 30, 2010, includes workers' compensation benefits paid by DOL during the periods July 1, 2008, through June 30, 2010, and accrued liabilities for the quarter July 1, 2010, through September 30, 2010. FAA's liability accrued as of September 30, 2009, included workers' compensation benefits paid by DOL during the period July 1, 2007, through June 30, 2009, and accrued liabilities for the quarter July 1, 2009, through September 30, 2009.

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,

	2009		
	Non-current liabilities	Current liabilities	Total
Intragovernmental			
Advances received	$ -	$ 40,244	$ 40,244
Accrued payroll & benefits payable to other agencies	-	76,705	76,705
Other liabilities	-	17,988	17,988
Liabilities covered by budgetary or other resources	-	134,937	134,937
Federal Employees' Compensation Act payable	120,066	90,949	211,015
Other	-	30,169	30,169
Liabilities not covered by budgetary or other resources	120,066	121,118	241,184
Intragovernmental total	120,066	256,055	376,121
With the public			
Advances received and other	-	95,499	95,499
Accrued payroll & benefits payable to employees	-	260,448	260,448
Liabilities covered by budgetary or other resources	-	355,947	355,947
Accrued unfunded annual & other leave & assoc. benefits	49,289	351,426	400,715
Sick leave compensation benefits for air traffic controllers	59,764	21,011	80,775
Capital leases (Note 9)	92,548	23,292	115,840
Legal claims	-	41,000	41,000
Other accrued liabilities	60,574	-	60,574
Liabilities not covered by budgetary or other resources	262,175	436,729	698,904
Public total	262,175	792,676	1,054,851
Total employee related and other liabilities	$ 382,241	$ 1,048,731	$ 1,430,972

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 $83.4 million and $80.8 million as of September 30, 2010 and 2009, respectively.

FAA estimated that 100% of its $72.2 million and $41.0 million legal claims liabilities as of September 30, 2010 and 2009, 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. Other Accrued Liabilities with the Public is composed primarily of accruals for utilities, leases, and travel. Total liabilities not covered by budgetary resources are presented in Note 15.

Note 9. Leases

Capital Leases

Following is a summary of FAA's assets under capital lease as of September 30, 2010 and 2009:

	2010	2009
Land, Buildings, and Machinery	$ 204,581	$ 204,485
Accumulated Depreciation	(104,678)	(96,036)
Assets Under Capital Lease, net	$ 99,903	$ 108,449

As of September 30, 2010, FAA's future payments due on assets under capital lease were:

Future payments due by fiscal year (Liabilities not covered by budgetary or other resources)	
Year 1 (FY 2010)	$ 14,127
Year 2 (FY 2011)	10,948
Year 3 (FY 2012)	8,340
Year 4 (FY 2013)	8,042
Year 5 (FY 2014)	7,808
After 5 Years	82,100
Less: Imputed interest	(24,407)
Total capital lease liability	$ 106,958

FAA's capital lease payments are authorized to be funded annually as codified in the United States Code-Title 49-Section 40110(c)(1) which addresses general procurement authority. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually.

Operating Leases

FAA has operating leases for real property, aircraft, and telecommunications equipment. Future operating lease payments due as of September 30, 2010, were:

Fiscal year	
Year 1 (FY 2011)	$ 153,920
Year 2 (FY 2012)	131,630
Year 3 (FY 2013)	82,585
Year 4 (FY 2014)	59,876
Year 5 (FY 2015)	48,127
After 5 Years	152,823
Total future operating lease payments	$ 628,961

Operating lease expense incurred during the years ended September 30, 2010 and 2009 was $204.1 million and $214.1 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 five years do not include estimated payments for leases with annual renewal options. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.

Note 10. Federal Employee Benefits Payable

As of September 30, 2010 and 2009, FECA actuarial liabilities were $908.7 million and $901.3 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 four years. FECA liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The estimated liability is not covered by budgetary or other resources and thus will require future appropriated funding.

Note 11. Net Cost by Program and Other Statement of Net Cost Disclosures

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, 2010 and 2009 by strategic goal:

For the Year Ended September 30, 2010

	Strategic Goal Areas				
Line of business programs	**Safety**	**Capacity**	**Organizational Excellence**	**International Leadership**	**Total**
Air Traffic Organization	$ 8,341,243	$ 2,661,195	$ 149,769	$ 24,589	$ 11,176,796
Aviation Safety	1,297,498	919	8,007	6,169	1,312,593
Airports	2,108,406	1,906,840	-	-	4,015,246
Commercial Space Transportation	11,974	3,066	-	-	15,040
Non line of business programs					
Regions and center operations and other	170,775	42,750	160,689	2,109	376,323
Net cost	$ 11,929,896	$ 4,614,770	$ 318,465	$ 32,867	$ 16,895,998

For the Year Ended September 30, 2009

	Strategic Goal Areas				
Line of business programs	**Safety**	**Capacity**	**Organizational Excellence**	**International Leadership**	**Total**
Air Traffic Organization	$ 7,924,375	$ 2,834,027	$ 109,001	$ 32,698	$ 10,900,101
Aviation Safety	1,158,316	942	8,356	9,297	1,176,911
Airports	2,118,569	1,915,629	403	-	4,034,601
Commercial Space Transportation	12,302	3,006	-	-	15,308
Non line of business programs					
Regions and center operations and other	97,029	7,914	157,362	1,506	263,811
Net cost	$ 11,310,591	$ 4,761,518	$ 275,122	$ 43,501	$ 16,390,732

The following is FAA's distribution of FY 2010 and FY 2009 net costs by intra-governmental related activity versus with the public:

	For the Year Ended September 30, 2010		
Line of business programs	**Intra-governmental**	**With the Public**	**Total**
Air Traffic Organization			
Expenses	$ 2,258,605	$ 9,130,564	$ 11,389,169
Less earned revenues	(158,370)	(54,003)	(212,373)
Net costs	2,100,235	9,076,561	11,176,796
Aviation Safety			
Expenses	288,484	1,035,913	1,324,397
Less earned revenues	(1,478)	(10,326)	(11,804)
Net costs	287,006	1,025,587	1,312,593
Airports			
Expenses	22,991	3,992,471	4,015,462
Less earned revenues	-	(216)	(216)
Net costs	22,991	3,992,255	4,015,246
Commercial Space Transportation			
Expenses	3,284	11,756	15,040
Net costs	3,284	11,756	15,040
Non line of business programs			
Regions and center operations and other programs			
Expenses	163,675	523,099	686,774
Less earned revenues	(66,759)	(243,692)	(310,451)
Net costs	96,916	279,407	376,323
Net cost of operations			
Total expenses	2,737,039	14,693,803	17,430,842
Less earned revenues	(226,607)	(308,237)	(534,844)
Net costs	$ 2,510,432	$ 14,385,566	$ 16,895,998

Line of business programs	For the Year Ended September 30, 2009 Intra-governmental	With the Public	Total
Air Traffic Organization			
Expenses	$ 2,160,316	$ 9,011,539	$ 11,171,855
Less earned revenues	(224,191)	(47,563)	(271,754)
Net costs	1,936,125	8,963,976	10,900,101
Aviation Safety			
Expenses	266,429	920,727	1,187,156
Less earned revenues	(2,089)	(8,156)	(10,245)
Net costs	264,340	912,571	1,176,911
Airports			
Expenses	25,276	4,009,694	4,034,970
Less earned revenues	-	(369)	(369)
Net costs	25,276	4,009,325	4,034,601
Commercial Space Transportation			
Expenses	3,611	11,697	15,308
Net costs	3,611	11,697	15,308
Non line of business programs			
Regions and center operations and other programs			
Expenses	123,542	475,139	598,681
Less earned revenues	(55,304)	(279,566)	(334,870)
Net costs	68,238	195,573	263,811
Net cost of operations			
Total expenses	2,579,174	14,428,796	17,007,970
Less earned revenues	(281,584)	(335,654)	(617,238)
Net costs	$ 2,297,590	$ 14,093,142	$ 16,390,732

Note 12. Earmarked Funds

FAA's earmarked funds are presented among two classifications: the first classification is comprised of the AATF and all related funds that receive funding from the AATF and includes 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 subsequently adjusts the estimates to reflect actual collections quarterly. The total taxes recognized in FY 2010 included OTA's estimate of $2.5 billion for the quarter ended September 30, 2010 and $2.8 billion for the quarter ended September 30, 2009.

As discussed in Note 1 E., FY 2010 excise tax revenue includes amounts certified as actual by the IRS for the first three quarters and amounts estimated by OTA for the fourth quarter. Excise taxes estimated by OTA in the 1st quarter exceeded amounts subsequently certified as actual by the IRS by $147.4 million, and understated amounts certified in the 2nd and 3rd quarters by $53.7 million and $211.2 million, respectively.

The following table summarizes the 4th quarter excise taxes accrued in FAA's FY 2009 and 2008 financial statements and the amounts certified as actual by the IRS several months after the issuance of those financial statements:

	2009	2008
Estimates	$ 2,790,689	$ 2,901,280
Actuals	2,722,419	2,891,422
Under (Over) Accrual	$ (68,270)	$ (9,858)

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 war-risk insurance, covers losses resulting from war, terrorism, or other hostile acts. FAA reported premium insurance revenues of $136.7 million and $154.8 million for the periods ended September 30, 2010 and 2009, 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 $52.9 million and $53.2 million for the periods ended September 30, 2010 and 2009, respectively. Aviation User Fees activity is reported below as other earmarked funds.

Fiscal data as of, and for the years ended September 30, 2010 and 2009 are summarized in the following charts. Intra-agency transactions have not been eliminated in the amounts presented.

Balance Sheet	AATF	Other Earmarked Funds	Total Earmarked Funds
		2010	
Assets			
Fund balance with Treasury	$ 881,730	$ 2,972,163	$ 3,853,893
Investments, net	7,078,432	1,473,115	8,551,547
Accounts receivable, net	-	3,580,596	3,580,596
Other assets	-	3,197,415	3,197,415
Total assets	$ 7,960,162	$ 11,223,289	$ 19,183,451
Liabilities and net position			
AATF amounts due to FAA	$ 3,486,898	$ -	$ 3,486,898
Other liabilities	-	2,968,636	2,968,636
Unexpended appropriations	-	1,151,893	1,151,893
Cumulative results of operations	4,473,264	7,102,760	11,576,024
Total liabilities and net position	$ 7,960,162	$ 11,223,289	$ 19,183,451
Statement of net cost			
Program costs	$ 10,220,422	$ 4,644,002	$ 14,864,424
Less earned revenue:			
Aviation insurance premiums	-	(136,715)	(136,715)
Overflight user fees	-	(52,649)	(52,649)
Other revenue	-	(173,410)	(173,410)
Net cost of operations	$ 10,220,422	$ 4,281,228	$ 14,501,650
Statement of changes in net position			
Cumulative results beginning of period	$ 3,899,318	$ 7,337,075	$ 11,236,393
Non-exchange revenue:			
Passenger ticket tax	7,261,070	-	7,261,070
International departure tax	2,324,017	-	2,324,017
Investment income	181,415	-	181,415
Fuel taxes	651,475	-	651,475
Waybill tax	395,119	-	395,119
Tax refunds and credits	(18,728)	-	(18,728)
Other revenue	-	35,379	35,379
Budgetary financing sources	-	5,076,129	5,076,129
Other financing sources	-	(1,064,595)	(1,064,595)
Unexpended appropriations	-	1,151,893	1,151,893
Net cost of operations	(10,220,422)	(4,281,228)	(14,501,650)
Change in net position	573,946	917,578	1,491,524
Net position end of period	$ 4,473,264	$ 8,254,653	$ 12,727,917

Balance Sheet	AATF	Other Earmarked Funds	Total Earmarked Funds
		2009	
Assets			
Fund balance with Treasury	$ (204,227)	$ 2,713,909	$ 2,509,682
Investments, net	7,875,758	1,294,427	9,170,185
Accounts receivable, net	-	3,953,310	3,953,310
Other assets	-	3,628,925	3,628,925
Total assets	$ 7,671,531	$ 11,590,571	$ 19,262,102
Liabilities and net position			
AATF amounts due to FAA	$ 3,772,213	$ -	$ 3,772,213
Other liabilities	-	3,111,303	3,111,303
Unexpended appropriations	-	1,142,193	1,142,193
Cumulative results of operations	3,899,318	7,337,075	11,236,393
Total liabilities and net position	$ 7,671,531	$ 11,590,571	$ 19,262,102
Statement of net cost			
Program costs	$ 11,783,177	$ 2,946,927	$ 14,730,104
Less earned revenue:			
Aviation insurance premiums	-	(154,794)	(154,794)
Overflight user fees	-	(53,194)	(53,194)
Other revenue	-	(265,022)	(265,022)
Net cost of operations	$ 11,783,177	$ 2,473,917	$ 14,257,094
Statement of changes in net position			
Cumulative results beginning of period	$ 4,822,612	$ 6,359,617	$ 11,182,229
Non-exchange revenue:			
Passenger ticket tax	7,465,647	-	7,465,647
International departure tax	2,187,182	-	2,187,182
Investment income	281,994	-	281,994
Fuel taxes	556,570	-	556,570
Waybill tax	469,881	-	469,881
Tax refunds and credits	(110,034)	-	(110,034)
Other revenue	8,643	24,448	33,091
Budgetary financing sources	-	3,346,527	3,346,527
Other financing sources	-	80,400	80,400
Unexpended appropriations	-	1,142,193	1,142,193
Net cost of operations	(11,783,177)	(2,473,917)	(14,257,094)
Change in net position	(923,294)	2,119,651	1,196,357
Net position end of period	$ 3,899,318	$ 8,479,268	$ 12,378,586

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, 2010 and 2009, imputed financing was as follows:

	2010	2009
Office of Personnel Management	$ 583,690	$ 580,340
Treasury Judgment Fund	15,411	81,937
Total imputed financing sources	$ 599,101	$ 662,277

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:

	2010	2009
Combined Statement of Budgetary Resources - budget authority	$ 19,041,737	$ 20,730,694
Less amounts made available to FAA from AATF dedicated collections	(13,590,433)	(15,526,738)
Net transfers of budget authority and other	(48,627)	(46,300)
Less special fund aviation user fees	(52,649)	(53,194)
Consolidated Statement of Changes in Net Position - appropriations received	$ 5,350,028	$ 5,104,462

FAA had rescissions of budgetary resources in FY 2010 and FY 2009 to Grant-in-Aid to Airports of $394.0 million and $93.2 million, respectively.

As of September 30, 2010 and 2009, the amount of budgetary resources obligated for undelivered orders was $8.6 billion and $8.8 billion, respectively.

Budget authority on the FY 2010 Combined Statement of Budgetary Resources includes contract authority of $3.6 billion and expired funds of $52 million that are not presented in the Budget of the United States Government. Also, obligations incurred on the FY 2009 Combined Statement of Budgetary Resources includes $72 million of expired funds and $743 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 2009 Combined Statement of Budgetary Resources differs from FY 2009 "actuals" reported in the appendix of the *FY 2010 Budget of the United States Government.* (The Budget of the United States Government is available on the Internet at **www.whitehouse.gov/omb**). As of the date of issuance of FAA's FY 2010 Combined Statement of Budgetary Resources, the Budget of the United States Government for FY 2012, which will contain "actual" FY 2010 amounts, was not yet published. The Office of Management and Budget is expected to publish this information early in calendar year 2011.

Statement of Budgetary Resources vs Budget of the United States Government

	Budgetary Authority	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
FAA Combined Statement of Budgetary Resources	$ 20,731,000	$ 22,714,000	$ (49,703)	$ 15,419,000
Reconciliation to Budget of the United States Government:				
Liquidation of Contract Authorization	(3,600,000)		-	-
Expired Funds	52,000	(72,000)	-	-
Rescissions	(93,000)		-	-
Aviation User Fees	(24,000)		-	-
Reimbursable Funds	-	(741,000)	-	-
Obligations from Trust Funds	-	(5,238,000)	-	-
Distributed Offsetting Receipts	-	-	49,703	-
Budget of the United States Government	$ 17,066,000	$ 16,663,000	$ -	$ 15,419,000

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

- Congress mandated permanent indefinite appropriations for the 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 2010 and FY 2009, 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:

	2010		2009	
	Direct	Reimbursable	Direct	Reimbursable
Category A	$ 4,574,348	$ 545,209	$ 5,797,847	$ 477,830
Category B	15,643,890	206,271	16,173,757	264,836
Total	$ 20,218,238	$ 751,480	$ 21,971,604	$ 742,666

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 2009, $17.9 million of obligated balances were in appropriations cancelled at year-end pursuant to 31 U.S.C. 1552 and thus have not been brought forward to FY 2010. Additionally, transfers in FY 2010 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, 2010 and 2009, and the change in components of net cost of operations that will require or generate resources in future periods.

	2010	2009	Change
FECA payable (Note 8)	$ 211,399	$ 211,015	$ 384
FECA actuarial (Note 10)	908,676	901,282	7,394
Legal claims (Note 8)	72,195	41,000	31,195
Unfunded annual & other leave & associated benefits (Note 8)	404,456	400,715	3,741
Sick leave compensation benefits (Note 8)	83,354	80,775	2,579
Increases - components of net cost of operations requiring or generating resources in future periods (Note 17)			45,293
Capital Leases (Notes 8 and 9)	106,958	115,840	(8,882)
Other accrued liabilities (Note 8)	85,905	90,743	(4,838)
Environmental liabilities (Note 7 & 16)	796,207	810,814	(14,607)
Decreases - resources that fund expenses recognized in prior periods (Note 17)			(28,327)
Total liabilities not covered by budgetary resources	2,669,150	2,652,184	16,966
Total liabilities covered by budgetary resources	1,565,263	1,787,989	(222,726)
Total liabilities	$ 4,234,413	$ 4,440,173	$ (205,760)

Note 16. Commitments, Contingencies, and Other Disclosures

Reauthorization. Effective October 1, 2010, FAA is operating under a continuing resolution (CR), Public Law 111-242, for its appropriation and many of its programmatic and financing authorities. The CR will be in effect through December 3, 2010, and includes a provision that allows the FAA to collect aviation-related excise taxes and to continue spending at fiscal year 2010 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 December 31, 2010. The outcome of future legislative and executive negotiation of these matters is uncertain.

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 a series of annual Airport Improvement Program grant agreements. FAA records an obligation when a grant is awarded. Through September 30, 2010, FAA issued letters of intent beginning in FY 1988 and extending through FY 2026 totaling $6.5 billion. As of September 30, 2010, FAA had obligated $5.2 billion of this total amount, leaving $1.3 billion unobligated.

Through September 30, 2009, FAA issued letters of intent beginning FY 1988 and extending through FY 2020 totaling $5.9 billion. As of September 30, 2009, FAA had obligated $4.9 billion of this total amount, leaving $1.0 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.

During FY 2010, FAA provided premium war-risk insurance to 61 airlines. For these airlines, combined hull and liability per occurrence coverage limits range from $100 million to $4 billion. FAA also provided non-premium war-risk insurance to 33 carriers with 1,577 aircraft for Department of Defense charter operations for Central Command.

As of September 30, 2010, there are no pending aviation insurance claims. There is approximately $1.5 billion available in the Aviation Insurance Revolving Fund to pay claims to carriers covered by premium insurance. If premium insurance claims should exceed that amount, additional funding could be appropriated from the General Fund. The Department of Defense and State Department have agreed to pay claims to the carriers covered by non-premium insurance.

Legal Claims. As of September 30, 2010 and 2009, FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at $87.0 million and $93.0 million, respectively. There are other claims that could result in significant pay-outs, however, it is not possible at this time to determine the probability of an unfavorable outcome, or to determine an estimate of potential loss for these matters, if any.

Environmental Liabilities. As of September 30, 2010, FAA has estimated contingent liabilities, categorized as reasonably possible of $158.0 million related to environmental remediation. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions or uncertainties within a defined project scope.

Note 17. Reconciliation of Net Cost of Operations to Budget

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

	2010	2009
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 20,969,718	$ 22,714,270
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	5,234,148	6,599,676
Obligations, net of offsetting collections	15,735,570	16,114,594
Other resources		
Donations and forfeitures of property	452	-
Transfers in/(out) without reimbursement	-	(1,105)
Imputed financing from costs absorbed by others	599,101	662,277
Net other resources used to finance activities	599,553	661,172
Total resources used to finance activities	**16,335,123**	**16,775,766**
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	(96,089)	558,626
Resources that fund expenses recognized in prior periods (decreases in unfunded liabilities) (Note 15)	28,327	136,324
Resources that finance the acquisition of assets	1,116,624	1,046,529
Other resources or adjustments to net obligated resources that do not affect net cost of operations	5,548	53,706
Total resources used to finance items not part of net cost of operations	1,054,410	1,795,185
Total resources used to finance net cost of operations	**15,280,713**	**14,980,581**
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 (Note 15)	45,293	241,592
Components not requiring or generating resources in future periods		
Depreciation and amortization	1,092,130	1,120,870
Other	477,862	47,689
Total components of net cost of operations that will not require or generate resources	1,569,992	1,168,559
Total components of net cost of operations that will not require or generate resources in the current period	**1,615,285**	**1,410,151**
Net cost of operations	**$ 16,895,998**	**$ 16,390,732**

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Non Federal Physical Property
Airport Improvement Program
For the Fiscal Years Ended September 30
Unaudited

State/Territory	2010	2009	2008	2007	2006
Alabama	$ 70,995	$ 88,006	$ 53,568	$ 58,006	$ 75,753
Alaska	217,745	258,493	228,082	238,486	182,020
Arizona	74,873	81,016	87,839	64,170	100,235
Arkansas	44,485	41,746	40,313	41,002	48,454
California	330,976	257,045	402,378	377,060	330,255
Colorado	112,610	127,959	54,327	95,914	90,421
Connecticut	29,152	36,016	13,388	8,279	9,154
Delaware	11,841	15,112	11,163	12,109	7,127
District of Columbia	20,336	19,052	5,652	47,131	-
Florida	198,920	209,747	157,214	209,219	210,656
Georgia	62,908	112,453	118,644	78,564	70,484
Hawaii	32,954	81,303	41,556	74,179	45,815
Idaho	19,925	26,444	21,905	22,307	30,687
Illinois	123,683	126,249	116,104	197,470	111,302
Indiana	65,839	63,444	66,825	57,649	69,098
Iowa	40,461	30,776	37,843	33,501	32,866
Kansas	55,251	43,475	22,059	32,735	32,497
Kentucky	43,532	47,411	32,981	62,393	70,784
Louisiana	94,206	66,617	58,036	66,659	59,783
Maine	29,465	21,130	26,631	24,413	16,960
Maryland	23,741	26,262	30,575	52,523	54,956
Massachusetts	77,362	77,193	42,092	30,217	70,894
Michigan	126,271	95,534	121,795	99,889	120,606
Minnesota	81,733	62,844	68,027	64,822	88,144
Mississippi	47,301	43,608	69,768	69,488	40,229
Missouri	105,807	79,620	104,980	91,667	92,826
Montana	41,271	44,214	28,997	50,018	45,161
Nebraska	28,140	46,884	17,051	30,227	31,567
Nevada	60,035	62,106	51,045	58,106	95,972
New Hampshire	15,634	21,930	24,337	49,344	17,327
New Jersey	121,679	81,388	111,692	88,620	94,207
New Mexico	30,488	25,966	23,273	27,373	27,799

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Non Federal Physical Property
Airport Improvement Program
For the Fiscal Years Ended September 30
Unaudited

State/Territory	2010	2009	2008	2007	2006
New York	$ 111,390	$ 111,873	$ 80,292	$ 121,806	$ 124,315
North Carolina	109,685	105,959	97,242	70,696	79,245
North Dakota	26,195	21,948	19,395	26,433	17,530
Ohio	83,681	106,927	150,547	113,446	126,327
Oklahoma	46,774	49,832	33,975	40,475	43,459
Oregon	80,910	62,678	35,154	34,823	43,946
Pennsylvania	106,319	112,739	119,807	90,909	135,097
Rhode Island	20,554	7,441	13,177	24,985	16,085
South Carolina	45,763	42,403	34,553	24,614	43,391
South Dakota	32,330	32,142	29,557	24,161	18,489
Tennessee	101,234	96,655	76,141	96,290	78,238
Texas	249,084	289,801	299,473	212,737	260,496
Utah	34,482	39,329	56,319	49,935	38,669
Vermont	21,628	8,179	6,234	10,234	7,325
Virginia	57,930	81,283	64,932	104,667	97,613
Washington	98,228	133,508	97,078	111,797	97,519
West Virginia	27,634	28,280	25,256	34,623	35,917
Wisconsin	78,599	61,043	48,781	50,008	55,632
Wyoming	34,190	25,486	19,323	18,687	25,509
American Samoa	6,650	9,273	5,195	9,732	4,792
Guam	19,574	38,245	18,683	29,920	12,428
Northern Mariana Island	14,420	8,678	12,151	20,024	13,302
Puerto Rico	12,019	20,625	16,578	9,760	26,024
Virgin Islands	7,602	3,698	6,892	4,732	1,114
Marshall Island	24,514				
Administration	124,454	115,902	96,965	74,685	75,640
Totals	$ 4,015,462	$ 4,034,970	$ 3,753,840	$ 3,923,719	$ 3,852,141

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

Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Research and Development
For the Fiscal Years Ended September 30
Unaudited

Expenses	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006
Applied Research	$ 103,042	$ 95,764	$ 88,114	$ 102,782	$ 106,390
Development	2,008	1,102	814	844	587
Administration	36,723	35,055	33,519	32,050	30,566
R&D Plant	5,590	3,381	3,498	4,217	3,821
Total	**$ 147,363**	**$ 135,302**	**$ 125,945**	**$ 139,893**	**$ 141,364**

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 2010 research and development accomplishments.

- The increasing use of composite materials in major structural elements in commercial aircraft raises fire safety concerns related to hidden in-flight fire and fire in inaccessible areas. To ensure that a composite fuselage does not present a greater risk than a conventional aluminum fuselage during a hidden in-flight fire, FAA researchers developed a new flammability test method for composite fuselage structure. The new test method will ensure that a composite fuselage does not present a greater risk than a conventional aluminum fuselage during a moderately severe hidden in-flight fire in an inaccessible area of the cabin. The test results confirmed there are composite materials that could prevent the spread of flames and lower the risk of uncontrollable in-flight fire.
- The advent of suborbital transport brings promise of point-to-point (PTP) long distance transportation as a revolutionary mode of air transportation. The FAA safety regulatory provisions of commercial space transportation must continue to evolve and keep pace with new developments in the commercial space transportation sector, including PTP suborbital reusable launch vehicle operations. The FAA completed a critical examination of the safety related issues that must be considered in current ATM and future NextGen architectures to ensure suborbital PTP operations occur safely and seamlessly in the NAS. For more information, see **http://www.faa.gov/about/office_org/headquarters_offices/ast/media/point_to_point.pdf**.
- The most deadly of general aviation encounters results from inadvertent flight into hazardous weather conditions by inexperienced or ill-equipped pilots. The most common type of weather accident continues to be the attempt to fly by visual references in poor visibility weather conditions. The FAA is developing automated ceiling and visibility nowcast and forecast products that will improve general aviation safety in these types of conditions. A real-time nowcast offering current

ceiling, visibility and flight category information was developed. The development and validation of this product, called the National Ceiling and Visibility Nowcast (NCVn), has been completed and it should be operationally implemented in FY 2011. A prototype of a probabilistic 1-10 hour forecast of ceiling, visibility, and flight category, the National Ceiling and Visibility Forecast (NCV-f), also has been developed. This prototype, which will be evaluated in FY 2011, will produce a 10 hour forecast for the Northeast United States. These capabilities will provide a common real-time situational awareness by air traffic management, pilots, and dispatch to enhance NAS safety as well as capacity.

- Aviation alternative fuels offer energy security and price stability for commercial aviation, as well as significant environmental benefits through reduction in emissions that contribute to both air quality and climate change. In FY 2010, the FAA worked with other federal agencies and stakeholders to demonstrate the feasibility and environmental benefits of drop-in alternative fuel sources. We achieved a major milestone by contributing toward the approval of Fischer-Tropsch Synthesis (a set of chemical reactions that create a petroleum substitute), by ASTM International and establishing a framework for the approval of additional fuels. We completed a groundbreaking study of life-cycle emissions of a wide range of alternative jet fuels. We also made progress quantifying other sustainability aspects such as land use and water use. We continue to work with ASTM to qualify additional drop-in alternative fuels with a focus on bio-blends. This work will enable availability and deployment of sustainable jet fuels by 2016.

REQUIRED SUPPLEMENTARY INFORMATION

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Supplementary Information
Deferred Maintenance
As of September 30, 2010
Unaudited

Category	Method	Asset condition*	Costs to return to acceptable condition
Buildings	Condition assessment	4&5	$ 74,155
Other structures and facilities	Condition assessment	4&5	$ 194,000

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

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

Deferred maintenance is estimated using condition assessment surveys and includes the following buildings, structures, and facilities: Enroute, Terminal, FAA Technical Center, FAA Aeronautical Center and unstaffed facilities. FAA recognizes maintenance expense as incurred.

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Schedule of Budgetary Resources by Major Fund Type
As of September 30, 2010
Unaudited

	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
Budgetary Resources								
` Unobligated balance brought forward and transfers	$ 394,696	$ 1,332,369	$ 68,118	$ 1,310,864	$ 174,371	$ 185,852	$ 131,873	$ 3,598,143
Recoveries of prior year obligations	96,417	129,894	3,905	2,032	37,506	131,253	24,730	425,737
Budget authority	6,515,000	2,936,203	190,507	-	-	9,350,028	49,999	19,041,737
Spending authority from offsetting collections	1,104	60,257	6,296	149,979	463,563	4,114,663	(227)	4,795,635
Nonexpenditure transfers, net	-	-	-	-	-	1,372	(49,999)	(48,627)
Permanently not available	(3,394,000)	(60,597)	(3,572)	-	-	(62,833)	-	(3,521,002)
Total Budgetary Resources	$ 3,613,217	$ 4,398,126	$ 265,254	$ 1,462,875	$ 675,440	$ 13,720,335	$ 156,376	$ 24,291,623
Status of Budgetary Resources								
Obligations incurred	$ 3,608,920	$ 2,892,990	$ 208,750	$ 13,022	$ 545,209	$ 13,546,013	$ 154,814	$ 20,969,718
Unobligated balances-available	4,297	1,397,326	51,825	34,633	130,231	84,150	1,562	1,704,024
Unobligated balances-not available	-	107,810	4,679	1,415,220	-	90,172	-	1,617,881
Total Status of Budgetary Resources	$ 3,613,217	$ 4,398,126	$ 265,254	$ 1,462,875	$ 675,440	$ 13,720,335	$ 156,376	$ 24,291,623
Change in Obligated Balances								
Obligated balance, net, beginning of period	$ 4,702,857	$ 1,829,793	$ 133,949	$ 6,820	$ 148,082	$ 1,408,396	$ 987,089	$ 9,216,986
Obligations incurred	3,608,920	2,892,990	208,750	13,022	545,209	13,546,013	154,814	20,969,718
Gross Outlays	(3,282,605)	(2,696,716)	(156,559)	(13,048)	(486,664)	(13,504,581)	(798,016)	(20,938,189)
Recoveries of prior year obligations, actual	(96,417)	(129,894)	(3,905)	(2,032)	(37,506)	(131,253)	(24,730)	(425,737)
Change in uncollected customer payments from Federal sources	-	26,676	2,930	-	(5,283)	95,685	227	120,235
Obligated balance, net, end of period	$ 4,932,755	$ 1,922,849	$ 185,165	$ 4,762	$ 163,838	$ 1,414,260	$ 319,384	$ 8,943,013
Obligated balance, net, end of period								
Unpaid obligations	$ 4,932,811	$ 2,010,975	$ 195,401	$ 4,762	$ 187,290	$ 1,635,561	$ 319,157	$ 9,285,957
Uncollected customer payments from Federal sources	(56)	(88,126)	(10,236)	-	(23,452)	(221,301)	227	(342,944)
Total unpaid obligated balance, net end of period	$ 4,932,755	$ 1,922,849	$ 185,165	$ 4,762	$ 163,838	$ 1,414,260	$ 319,384	$ 8,943,013
Net Outlays								
Gross outlays	$ 3,282,605	$ 2,696,716	$ 156,559	$ 13,048	$ 486,664	$ 13,504,581	$ 798,016	$ 20,938,189
Offsetting collections	(1,103)	(86,930)	(9,231)	(149,979)	(458,278)	(4,210,349)	-	(4,915,870)
Distributed offsetting receipts	-	-	-	-	-	-	(12,776)	(12,776)
Net Outlays	$ 3,281,502	$ 2,609,786	$ 147,328	$ (136,931)	$ 28,386	$ 9,294,232	$ 785,240	$ 16,009,543

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Schedule of Budgetary Resources by Major Fund Type
As of September 30, 2009
Unaudited

Budgetary Resources	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
` Unobligated balance brought forward and transfers	$ 102,772	$ 1,146,277	$ 38,981	$ 1,136,744	$ 192,909	$ 181,883	$ 22,714	$ 2,822,280
Recoveries of prior year obligations	145,691	139,341	4,680	8	19,941	75,716	-	385,377
Budget authority	7,500,000	2,689,931	171,010	-	-	9,042,467	1,327,286	20,730,694
Spending authority from offsetting collections	15	105,540	4,546	180,755	435,747	5,437,549	444	6,164,596
Nonexpenditure transfers, net	-	-	-	-	-	3,700	(50,000)	(46,300)
Permanently not available	(3,693,200)	-	(1,972)	-	-	(49,062)	-	(3,744,234)
Total Budgetary Resources	$ 4,055,278	$ 4,081,089	$ 217,245	$ 1,317,507	$ 648,597	$ 14,692,253	$ 1,300,444	$ 26,312,413
Status of Budgetary Resources								
Obligations incurred	$ 3,660,582	$ 2,748,720	$ 149,127	$ 6,643	$ 474,226	$ 14,506,401	$ 1,168,571	$ 22,714,270
Unobligated balances-available	212	1,212,134	61,600	31,465	174,371	95,800	131,873	1,707,455
Unobligated balances-not available	394,484	120,235	6,518	1,279,399	-	90,052	-	1,890,688
Total Status of Budgetary Resources	$ 4,055,278	$ 4,081,089	$ 217,245	$ 1,317,507	$ 648,597	$ 14,692,253	$ 1,300,444	$ 26,312,413
Change in Obligated Balances								
Obligated balance, net, beginning of period	$ 5,064,438	$ 1,785,810	$ 137,523	$ 5,827	$ 62,962	$ 1,414,982	$ 2	$ 8,471,544
Obligations incurred	3,660,582	2,748,720	149,127	6,643	474,226	14,506,401	1,168,571	22,714,270
Gross Outlays	(3,876,472)	(2,541,066)	(144,063)	(5,642)	(427,694)	(14,376,739)	(181,484)	(21,553,160)
Recoveries of prior year obligations, actual	(145,691)	(139,341)	(4,680)	(8)	(19,941)	(75,716)	-	(385,377)
Change in uncollected customer payments from Federal sources	-	(24,330)	(3,958)	-	58,529	(60,532)	-	(30,291)
Obligated balance, net, end of period	$ 4,702,857	$ 1,829,793	$ 133,949	$ 6,820	$ 148,082	$ 1,408,396	$ 987,089	$ 9,216,986
Obligated balance, net, end of period								
Unpaid obligations	$ 4,702,914	$ 1,944,592	$ 147,116	$ 6,820	$ 166,251	$ 1,725,383	$ 987,089	$ 9,680,165
Uncollected customer payments from Federal sources	(57)	(114,799)	(13,167)	-	(18,169)	(316,987)	-	(463,179)
Total unpaid obligated balance, net end of period	$ 4,702,857	$ 1,829,793	$ 133,949	$ 6,820	$ 148,082	$ 1,408,396	$ 987,089	$ 9,216,986
Net Outlays								
Gross outlays	$ 3,876,472	$ 2,541,066	$ 144,063	$ 5,642	$ 427,694	$ 14,376,739	$ 181,484	$ 21,553,160
Offsetting collections	(16)	(81,211)	(587)	(180,755)	(494,276)	(5,377,016)	(444)	(6,134,305)
Distributed offsetting receipts	-	-	-	-	-	-	(49,703)	(49,703)
Net Outlays	$ 3,876,456	$ 2,459,855	$ 143,476	$ (175,113)	$ (66,582)	$ 8,999,723	$ 131,337	$ 15,369,152

The FAA is committed to being good environmental stewards. Although the environmental impact of aviation is relatively low, we continue to push for reductions in carbon emissions and noise pollution from aircraft. Through the $125 million Continuous Lower Energy, Emissions, and Noise (CLEEN) Program, the FAA is partnering with industry to develop the next generation in aircraft and engine technologies that will support the transition to renewable jet fuels and help reduce consumption, emissions, and noise.

Credit: FAA Image Gallery

OTHER ACCOMPANYING INFORMATION

INSPECTOR GENERAL'S TOP MANAGEMENT CHALLENGES FOR FY 2011

Each fiscal year, the DOT OIG identifies and reports the top challenges management will face in the ensuing year. While prepared for the DOT as a whole, the report includes certain challenges that pertain specifically to the FAA. At the time of publication of the FAA's FY 2010 PAR, the OIG's report had not been finalized. Therefore, we have included excerpts of the draft that pertain to the FAA.

Ensuring Transparency and Accountability in the Department's ARRA Programs

- Overseeing ARRA projects and expenditures
- Collecting quality data from award recipients

Maintaining Momentum in Addressing Human Factors and Improving Safety Oversight in the Aviation Industry

- Advancing industry and Government efforts to address pilot training and fatigue issues
- Enhancing risk-based oversight of Part 121 air carriers and foreign and domestic repair stations
- Ensuring effective oversight of mainline and regional air carriers operating under domestic code share agreements

Advancing the Next Generation Air Transportation System While Ensuring the Safe and Efficient Operation of the NAS

- Establishing realistic plans and setting expectations for NextGen
- Addressing problems with ongoing modernization projects that are essential to NextGen's success
- Maximizing the delivery and implementation of new performance-based navigation initiatives that can enhance capacity and reduce delays
- Ensuring a sufficient number of certified professional controllers at facilities that are critical to the NAS

Implementing Processes to Improve the Department's Acquisitions and Contract Management

- Strengthening processes to govern the appropriate use of non-competitive or risky contracts and maximize use of competition
- Strengthening the acquisition function and workforce to provide leadership for the department's acquisitions
- Maintaining programs to help ensure high ethical standards among the department's contractors and employees

Improving the Department's Cyber Security

- Establishing a robust information security program
- Strengthening air traffic control system protections
- Increasing protection of PII

Management Response

We agree that the FAA faces significant management and performance challenges as we continue to enhance aviation safety in an environmentally responsible way while simultaneously increasing efficiency in a fiscally restrained system. These Management Challenges are not issues that are easily solved. In many cases, they require investments or upgrades to technology or substantial changes in long-standing procedures or program activities. Completely addressing a Management Challenge may take more than 1 fiscal year. However, the challenges above will be met through the focused efforts of our leadership and the commitment of our workforce.

For FY 2010, the OIG identified similar challenges. The FY 2010 report, as well as the FAA's action plans and final end-of-year reports, can be found at: **www.faa.gov/about/plans_reports**.

SUMMARY OF AUDIT RESULTS AND MANAGEMENT ASSURANCES

Financial Statement Audit Summary

Table 1 is a summary of the results of the independent audit of the FAA's consolidated financial statements by the FAA's auditors in connection with the FY 2010 audit.

TABLE 1. SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion			FY 2010—unqualified		
			FY 2009—unqualified		
Restatement			No		
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**

Management Assurances Summary

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

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified statement of assurance					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified statement of assurance					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system					
Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Conformance of the FAA's core financial management system, Delphi, is assessed and reported by the DOT.	0	0	0	0	0	0

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES		
Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

Reducing Improper Payments

In FY 2010, the FAA continued its compliance with the Improper Payments Information Act of 2002 (IPIA). The IPIA requires that agencies:

- Review programs and identify those susceptible to significant improper payments
- Report to Congress on the amount and causes of improper payments
- Develop approaches for reducing such payments.

The FAA's compliance efforts involved developing and executing a nationwide sampling plan for the Airport Improvement Program, testing sampled invoice line items for improprieties, and extrapolating the results to compute a nationwide estimate of improper payments for the Airport Improvement Program grants. The FAA review spanned the 10-month period June 1, 2009, through March 31, 2010.

The sampling plan involved a multi-staged statistical line item approach designed to test a range of administrative and contractual elements.

The FAA found improper payments totaling $1,312.10 in the sample of 219 tested invoice line items. These are known improper payments. When projected to the population of program payments for the 10-month period, it results in a program-wide improper payment estimate of $1.3 million, which is an estimated improper payment rate of less than 1 percent. The foregoing point estimate projection does not meet the OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments). However the FAA, in coordination with the DOT's Office of Financial Management, will develop and distribute a best practices guide for grantees to work towards further reducing the improper payment rate.

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 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)
Unaudited

	As of September 30	
	2010	2009
Assets		
Fund balance with Treasury	$ 294,069	$ 322,455
Accounts receivable, net	2,357	2,522
Inventory and related property, net	518,958	473,770
General property, plant, and equipment, net	29,612	22,258
Other	3,657	556
Total assets	$ 848,653	$ 821,561
Liabilities		
Accounts payable	$ 27,793	$ 23,293
Advances from others	198,519	214,919
Employee related	19,294	18,007
Other	4,387	3,611
Total liabilities	249,993	259,830
Net position		
Cumulative results of operations	598,660	561,731
Total net position	598,660	561,731
Total liabilities and net position	$ 848,653	$ 821,561

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
Condensed Information
REVENUES AND EXPENSES
(Dollars in Thousands)
Unaudited

		For the years ended September 30	
		2010	2009
Enterprise Services Center	Revenues	$ 145,585	$ 127,791
	Expenses	164,603	147,564
	Profit/(loss)	(19,018)	(19,773)
Aircraft Maintenance and Enginering Group	Revenues	57,051	55,999
	Expenses	66,872	56,503
	Profit/(loss)	(9,821)	(504)
FAA Academy	Revenues	16,218	14,982
	Expenses	15,789	15,730
	Profit/(loss)	429	(748)
FAA Logistics Center	Revenues	301,613	282,652
	Expenses	282,198	265,388
	Profit/(loss)	19,415	17,264
Acquisitions	Revenues	8,637	-
	Expenses	11,212	-
	Profit/(loss)	(2,575)	-
Total Consolidated	Revenues	529,104	481,424
	Expenses	540,674	485,185
	Profit/(loss)	$ (11,570)	$ (3,761)

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
Condensed Information
FINANCING SOURCES AND NET POSITION
(Dollars in Thousands)
Unaudited

	Cumulative results of operations	
	2010	2009
Beginning balance, net position	$ 561,731	$ 531,030
Financing sources		
Transfers-in/out without reimbursement	(11,961)	(17,665)
Imputed financing from costs absorbed by others	60,460	52,127
Total financing sources	48,499	34,462
Profit (loss)	(11,570)	(3,761)
Ending balance, net position	$ 598,660	$ 561,731

While NextGen is being phased in, the FAA is using funds from the American Recovery and Reinvestment Act of 2009 (ARRA) to improve the current infrastructure and stimulate local economies. The FAA's ARRA investments include $1.1 billion for improvements to runways and terminals and $200 million for upgrades to air traffic control towers, power systems, and lighting. Fund recipients report over 4,000 jobs paid for with ARRA money.

Credit: FAA Image Gallery

GLOSSARY OF ACRONYMS

ACRONYM	NAME
AATF	Airport and Airway Trust Fund
ACSI	American Customer Satisfaction Survey
ADS-B	Automatic Dependent Surveillance-Broadcast
AED	Automated External Defibrillator
AEDT	Aviation Environment Design Tool
AIP	Airport Improvement Program
AMS	Acquisition Management System
APEC	Asia-Pacific Economic Cooperation
ARP	Airports (FAA Line of Business)
ARRA	American Recovery and Reinvestment Act
ASAP	Aviation Safety Action Program
ASDE-X	Airport Surface Detection Equipment-Model X
ASIAS	Aviation Safety Information Analysis and Sharing
ASPIRE	Asia and Pacific Initiative to Reduce Emissions
AST	Commercial Space Transportation (FAA Line of Business)
ASV	Annual Service Volume
ATO	Air Traffic Organization (FAA Line of Business)
AVS	Aviation Safety (FAA Line of Business)
BPA	Blanket Purchase Agreement
CAAFI	Commercial Aviation Alternative Fuels Initiative
CAAS	Civil Aviation Authority of Singapore
CAS	Cost Accounting System
CAST	Commercial Aviation Safety Team
CFO	Chief Financial Officer
CIP	Construction in Progress
CLEEN	Continuous Low Emissions, Energy, and Noise
CMEL	Center for Management and Executive Leadership
COE	Center of Excellence
COTS	Commercial Off-The-Shelf
CPR	Cardiopulmonary Resuscitation
CR	Continuing Resolution
CSMC	Cyber Security Management Center
CSRS	Civil Service Retirement System
DOL	Department of Labor
DOT	Department of Transportation
EO	Executive Order
ERAM	En Route Automation Modernization
ESC	Enterprise Services Center
EVM	Earned Value Management

ACRONYM	NAME
F&E	Facilities and Equipment
FAA	Federal Aviation Administration
FAAST	FAA Safety Team
FEA	Federal Enterprise Architecture
FEAF	Federal Enterprise Architecture Framework
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FSAM	Federal Segment Architecture Methodology
FSEP	Facility Service and Equipment Profile
FY	Fiscal Year
G&A	General and Administration
GAO	Government Accountability Office
GPS	Global Positioning System
GRC	Governance Risk and Control
ICAO	International Civil Aviation Organization
IPIA	Improper Payment Information Act
IRS	Internal Revenue Service
ISS	Information Systems Security
IT	Information Technology
ITD	International Training Division
JCAB	Civil Aviation Bureau of Japan
JFMIP	Joint Financial Management Improvement Program
LOB	Line of Business
NAS	National Airspace System
NASA	National Aeronautics and Space Administration
NATCA	National Air Traffic Controllers Association
NCVf	National Ceiling and Visibility Forecast
NCVn	National Ceiling and Visibility Nowcast
NextGen	Next Generation Air Transportation System
NIEC	NextGen Integration and Evaluation Capability
NMW	No Material Weakness
NNCC	National Network Control Center
NPRM	Notice of Proposed Rulemaking
NTSB	National Transportation Safety Board
OEP	Operational Evolution Partnership
OIG	Office of the Inspector General

ACRONYM	NAME
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSI	Organizational Success Increase
OTA	Office of Tax Analysis
PAR	Performance and Accountability Report
PBN	Performance-Based Navigation
PII	Personally Identifiable Information
PP&E	Property, Plant, and Equipment
PTP	Point-to-Point
R,E,&D	Research, Engineering, and Development
RI	Runway Incursion
RNAV	Required Area Navigation
RNP	Required Navigation Procedures
RSA	Runway Safety Areas
SAVES	Strategic Sourcing for the Acquisition of Various Equipment and Supplies
SE	Safety Enhancement
SFFAS	Statement of Federal Financial Accounting Standards
SMS	Safety Management System
SPAS	Safety Performance Analysis System
SSN	Social Security Number
SWIM	System Wide Information Management
TBD	To Be Determined
TFR	Temporary Flight Restriction
TRACON	Terminal Radar Approach Control
UPS	United Parcel Service
USSGL	U.S. Standard General Ledger
WAAS	Wide-Area Augmentation System

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The Nation's economy depends on aviation, and flight delays cost money. NextGen will provide a more cost-efficient way to handle the growing demands of air travel, and will help communities make better use of their airports to attract new jobs and expand local businesses.

Credit: FAA Image Gallery

WE WELCOME YOUR COMMENTS!

Thank you for your interest in the FAA's FY 2010 Performance and Accountability Report. We welcome your comments on how we can make this report more informative for our readers.

Please send your comments to

Mail:
Office of Financial Reporting and Accountability
Federal Aviation Administration
800 Independence Avenue, SW
Room 612
Washington, DC 20591

Phone: 202–267–3018
Email: Allison.Ritman@faa.gov
Fax: 202–493–4191

This report and reports from prior years are available on the FAA Web site at **www.faa.gov/about/plans_reports**. For a printed copy, call 202–267–3018 or email **Allison.Ritman@faa.gov**.

U.S. Department of Transportation
Federal Aviation Administration
800 Independence Avenue, SW
Washington, DC 20591

www.faa.gov

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