Federal Aviation Administration

Moving America Safely

FY 2006
PERFORMANCE AND ACCOUNTABILITY HIGHLIGHTS

FAA AT A GLANCE

Established	**1958**
Headquarters	**800 Independence Avenue, SW Washington, DC 20591 www.faa.gov**
FY 2006 Budget (enacted)	**$14.269 billion**
Total Employees	**44,865**
Headquarters	**5,018 employees**
Regional Offices	**35,205 employees**
Technical Center *Atlantic City, NJ*	**1,204 employees**
Aeronautical Center *Oklahoma City, OK*	**3,438 employees**
FY 2006 Passengers on U.S. Carriers	**738 million (estimate)**
FY 2006 Tower Operations	**61 million arrivals and departures (estimate)**

MISSION

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

VISION

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

VALUES

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

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

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

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

A MESSAGE FROM THE ADMINISTRATOR

Administrator Marion Blakey, *center*, commissioned a new runway at Atlanta's Hartsfield-Jackson International Airport on May 17, 2006. She is flanked by airport deputy manager Mario Diaz, left, and Atlanta mayor Shirley Franklin, right. Runway 10/28 cost $1.28 billion and is expected to reduce delays by increasing the airport's capacity to handle more flights.

Credit: AP / WIDE WORLD PHOTOS

The United States requires an aviation system that is both safe and efficient, and Americans look to the FAA to make good on that demand. We continue to do so. Managing the world's most complex airspace and most complicated air traffic control system, the 44,865 men and women of the FAA help deliver the world's safest form of transportation on a 24/7/365 basis—50,000 flights per day, 700 million passengers per year. But the numbers alone do not tell the full story.

FY 2006 Accomplishments

FAA made significant progress in achieving all four goals in our strategic plan—the FAA *Flight Plan*: ensuring safety, increasing capacity, demonstrating international leadership, and achieving organizational excellence.

- **Safety.** Safety remains our number one priority. Despite the tragic Comair accident on August 27, 2006, FAA's safety record continues to be a remarkable accomplishment. Our commercial fatal accident rate is at an all-time low. General aviation safety improved significantly over the past year, with a 16% reduction in general aviation accidents and a 20% reduction in Alaska accidents. Our entire workforce—inspectors, engineers, technicians, and controllers—shares this accomplishment with the aviation community.
- **Capacity.** Even with continued financial uncertainty in the airline industry, analysts predict that the demand for air travel will soon outstrip existing capacity if we fail to modernize the system. Air travel now exceeds pre-September 11 levels and should exceed 1 billion passengers by FY 2015. During FY 2006, we commissioned runways at four large airports and continued to lay the foundation for a Next Generation system that has the capacity to accommodate predicted growth.
- **International Leadership.** FAA sets the pace for aviation across the globe. We continue to use our most important export—safety—as a means to ensure that the global system mirrors our own. The number of countries to which we provide support has reached 131. We are working with the International Civil Aviation Organization (ICAO) and Eurocontrol to harmonize safety, efficiency, and technology. We increased our technical interactions with China, India, and Brazil. We opened new offices in Abu Dhabi, United Arab Emirates, and Delhi, India, and are working to open an office in South America in 2007. Our aim is simple: spreading the net of aviation safety to the four corners of the globe.
- **Organizational Excellence.** Continuous improvement in our business practices paid off again this year as we realized significant cost savings and other efficiencies. In FY 2006, we transitioned the operation of Flight Service Stations to Lockheed Martin—the single largest civilian outsourcing in history—saving over $2.2 billion over the life of the program. Facility and service consolidation, as well as strategic outsourcing, have also contributed to cost efficiency this year. In addition, we have improved our oversight on major programs and now have 97% of our critical acquisitions on schedule and 100% on budget. Our focus on organizational excellence will continue to benefit the FAA's customers for many years to come. The Association of Government Accountants awarded us a third consecutive Certificate of Excellence in Accountability Reporting for our *FY 2005 Performance and Accountability Report*. In addition, we received a third consecutive award for our *FY 2005 Performance and Accountability Highlights* from the League of American Communications Professionals. This award recognized our publication as one of the top annual reports in the country.

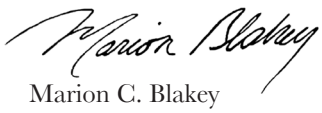
Future Challenges

While we can be justly proud of our accomplishments in FY 2006, we face a number of challenges in FY 2007 and beyond.

- Although we did not meet our very aggressive goal for further reducing the commercial air carrier fatal accident rate in FY 2006, in the coming year we will continue our focus on identifying the precursors to accidents and developing new technologies to ensure that commercial aviation remains one of the safest forms of transportation.
- Expanding capacity to meet increased demand poses another significant challenge to FAA and the aviation community. We will meet these needs by developing new technologies to support the *Integrated National Plan for the Next Generation Air Transportation System* (NextGen). This Plan, submitted to Congress in December 2004, brings together several cabinet-level agencies in the Joint Planning and Development Office (JPDO) to eliminate duplication and maximize resources. The Plan is a roadmap that will leverage Federal funds and allow us to deliver a national aviation system that can handle the safety, capacity, and security needs of our future.
- The Airport and Airway Trust Fund (AATF) was created in 1970 to provide a dedicated source of funding for the aviation system. AATF taxes are set to expire in FY 2007. FAA is working to establish a stable, cost-based revenue stream that will ensure funding for long-term capital needs. FAA needs a revenue stream that is related to the cost of operating the system. Greater stakeholder involvement can also help us ensure that we are concentrating on services that the customer wants and is willing to pay for.

Our *FY 2006 Performance and Accountability Highlights* provides an accounting of our service to both the flying public and the aviation industry. We sustained our performance this year, attaining 27 out of 30 goals in the areas of safety, capacity, international leadership, and organizational excellence.

After five consecutive clean audits, we received a qualified opinion on our FY 2006 financial statements. The qualification was limited to the accuracy of the Construction in Progress account balance. Further, our auditors reported a related material weakness for lack of supporting documentation and a need to strengthen existing policies and procedures in the capitalization process. We have developed a plan to address this weakness and correct the qualification, which will be implemented in phases during FY 2007. Internally, we assess the vulnerability of our programs and systems through the Federal Managers' Financial Integrity Act (FMFIA) of 1982. I am reporting a qualified statement of assurance that, taken as a whole, the management controls and financial management systems in effect from October 1, 2005, through September 30, 2006, provide reasonable assurance that the objectives of both sections 2 and 4 of FMFIA are being met. The qualification is in respect to the material weakness in the capitalization process and the limited testing of 6 of 11 major business processes in accordance with our 2-year plan. The remaining five business processes will be tested in FY 2007. Management controls are in place and our financial systems conform to Government-wide standards.



Marion C. Blakey
Administrator
November 3, 2006

FUTURE FLIGHT

This is the most dynamic period in the history of aviation.

In August 2006, the Federal Aviation Administration (FAA) issued a Type Certificate to the Cessna Citation Mustang. This all-metal, six-passenger personal jet features state-of-the-art navigation systems and digital avionics with large, flat-panel glass cockpit displays. The avionics suite in this aircraft provides a level of situational awareness and sophistication that—until recently—was unheard of in this class of aircraft.

The Mustang is an entry-level business jet that allows passengers to view weather at their destinations while en route. It is one of 20 light jet models that are in various stages of design and production. FAA forecasters project that up to 5,000 of these jets will be in operation by 2017. The number of Light Sport Aircraft—another new category of aircraft—could climb to 14,000 over the same time period.

From Light Sport Aircraft to unmanned aircraft to the thousands of air carrier flights to the wide range of general aviation flying; from recreational pilots to helicopter air ambulances and external load operators to business jets that are as or more sophisticated than commercial airliners—this is just a sampling of what is in our airspace today. The Mustang and Light Sport Aircraft are just two new classes of aircraft that will place increasing demands on the national airspace system that FAA maintains.

For more information: www.faa.gov/news/speeches/news_story.cfm?newsId=7434

MANAGEMENT'S DISCUSSION AND ANALYSIS

FAA Organization

The mission of the Federal Aviation Administration (FAA), an agency of the U.S. Department of Transportation (DOT), is to provide the safest, most efficient aerospace system in the world. FAA 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 almost 60 years.

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

Today's FAA faces the challenges of moving America safely with the help of dedicated employees at its headquarters in Washington, DC, in regional offices, and in facilities around the world. We fulfill our mission through four lines of business that work together to create and maintain the world's preeminent national airspace system (NAS).

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

A Year in Highlights

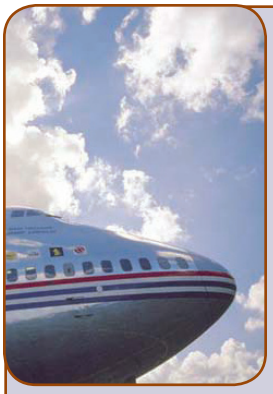
With a workforce of 44,865 professionals and an annual budget of approximately $14.3 billion, FAA operates and maintains the most complex air traffic control system in the world. More than half of the world's air traffic is managed by 14,618 controllers, who ensure ever-increasing levels of safety. We conduct research to improve aviation safety and efficiency and provide grants to improve 3,364 eligible public-use airports in the United States. FAA also regulates commercial space launch activities to ensure public safety.

Administrator Marion C. Blakey led FAA to a number of significant accomplishments in FY 2006.

- Achieved certification to the prestigious International Organization for Standardization ISO 9001:2000 quality management standard of a single corporate

management system that covers multiple aviation safety services, including national and international sites encompassing 6,462 employees. FAA is the first and largest Federal business to achieve this world-class registration.

- Commissioned four new runways—St. Louis, Atlanta, Cincinnati, and Minneapolis/St. Paul—adding 1.67% (or 655,000 takeoffs and landings) in new capacity. These new runways will help FAA manage increased demands on the system while working to minimize delays and congestion. We are now planning for six new runway projects, which will further increase capacity.
- Presented a legislative proposal for a new system for financing the FAA in the future. The excise taxes that go to the Airport and Airway Trust Fund are set to expire in FY 2007 without congressional reauthorization. Aviation infrastructure and FAA's operations are funded, in part, by taxes on airline tickets, which are deposited in the AATF.
- Began work under a new contract with air traffic controllers. Despite negotiations lasting 9 months, including 1 month of mediation, FAA and the National Air Traffic Controllers Association (NATCA) could not agree on the terms of a new contract that would allow necessary changes in the agency's personnel system. As provided by law, we sent our entire proposal, along with NATCA's proposal and objections, to Congress on April 5, 2006, for a period of 60 days. That period for review ended without modification of FAA's proposal by Congress. Therefore, under the terms of our statute, our proposed change took effect on June 5, 2006.
- Released an updated *Air Traffic Controller Workforce Plan* designed to address anticipated retirement and replacement of air traffic controllers over the coming decade. The revised document outlines the agency's plans to hire more than 11,800 new air traffic controllers over the next 10 years.
- Introduced the Airspace Flow Program, which is designed to greatly reduce the number of flight delays and bring an estimated $900 million in cost savings to the airlines and the flying public.
- Issued new common Federal commercial launch safety standards designed to create consistent, integrated space launch rules for the nation.
- Continued to transform the aviation system through the Joint Planning and Development Office. JPDO—a joint venture of FAA; the Departments of Defense, Commerce, Transportation, and Homeland Security; the National Aeronautics and Space Administration (NASA); the White House Office of Science and Technology Policy; and industry partners—is a test bed for new ideas. During FY 2006, JPDO proposed targeted investments to accelerate the development of key Next Generation Air Transportation System (NextGen) projects. Two examples of such projects are Automatic Dependent Surveillance-Broadcast (ADS-B), which will replace ground-based radar systems and revolutionize air navigation and surveillance, and the System Wide Information Management (SWIM), which will help make a network-enabled air traffic system possible, improving safety, efficiency, and security.
- Ensured aviation safety and improved capacity today and for the future through continued airport, aircraft, human factors, and weather research and development activities.
- Controlled costs and increased organizational efficiency by improving business practices as described in the section that follows.



SAFER SKIES

In October 2005, the FAA announced that a new system, Advanced Technologies and Oceanic Procedures (ATOP), that allows air traffic controllers to better manage flights over the Pacific Ocean, is now fully operational at the Oakland Air Route Traffic Control Center (Oakland Center).

The new ATOP system provides safe separation of aircraft in areas outside radar coverage or direct radio communication, such as over the ocean. The system, which detects conflicts between aircraft, sends data and aircraft position information via satellite to air traffic controllers at the Oakland Center. The system helps the airlines save fuel while maintaining the highest standards of safety for transoceanic flights. ATOP also reduces the workload of controllers by displaying aircraft information electronically instead of on paper strips, a labor-intensive method used for decades to track transoceanic aircraft.

More direct communications and reduced controller workload will allow controllers to reduce horizontal separation between aircraft from 100 nautical miles (nm) to 30 nm. With greater transoceanic capacity, more airlines will be able to fly preferred routes, saving fuel and allowing better on-time performance.

For more information: www.faa.gov/news/press_releases/news_story.cfm?newsId=6553

- Maintained a focus on aviation as a global system by working closely with international organizations to seek global solutions to safety, routing, procedural, technology, and environmental issues.
- Increased system capacity, maintained efficiency, and minimized delays by continuing work with U.S. airports to analyze chokepoints, commission new runways, and take advantage of precise satellite navigation technologies to increase efficiency.

Integrating Performance and Financial Information

Efficiency and Cost-Effectiveness

Over the past several years, we have made significant progress in making cost control a priority throughout FAA. For the past 2 years, FAA has included a cost efficiency target among the 30 major *Flight Plan* goals we track each month. As a result of this emphasis, which is part of the broader effort to operate more like a business, we have been able to achieve $126 million in recurring savings from efforts put in place in FY 2005 and $68 million from efforts that were initiated during FY 2006. A detailed discussion of our continuing efforts to ensure efficiency and cost effectiveness appears in our *FY 2006 Performance and Accountability Report*.

Our areas of focus include consolidation of staffing and facilities to address the synergies derived from cross-utilization of resources that will reduce the unit cost of services. This effort also includes benefits that are derived from outsourcing services to obtain cost efficiencies.

ATO Service Area Consolidation. In 2004, in an effort to maximize our resources, FAA decided to restructure the ATO service area offices and centralize the managerial, administrative, and business support functions. Continuing this restructuring in FY 2006, we consolidated administrative and staff support from 27 units in 9 regional offices to 3 units in 3 regional offices.

Accounting Consolidation. Another consolidation effort was the centralization of all accounting offices. This initiative went from concept to reality in 2006, when the remaining six accounting offices were consolidated into the Oklahoma City Finance Center. This effort resulted in payroll savings of $3.5 million per year, which we will begin to realize in FY 2007.

Human Resource Consolidation. In addition to accounting operations consolidation, we have also centralized human resource support and travel processing operations. For human resource support, we consolidated personnel processing from 12 locations to 3 locations.

Real Property Planning. During FY 2006, the Department of Transportation (DOT) consolidated real property planning and management under a single Asset Management Plan and Three-Year Timeline for executing property initiatives. In addition, the entire Department's real property inventory was consolidated into a single database, including the more than 69,000 buildings, structures, and land parcels owned or operated by FAA. Oversight of the policy, planning, and performance goals of real property management have begun to merge into a single office within FAA.

IT Services. Consolidation of services in recent years has included web services, application software, servers, and help desk consolidations in many organizations such as Information Services; Aviation Policy, Planning, and Environment; Regions and Center Operations; and Security and Hazardous Materials.

A-76 Sourcing. The single largest effort by FAA, and the largest nonmilitary outsourcing initiative in the Federal Government, involved the A-76 sourcing of 58 flight service stations to Lockheed Martin. This initiative will result in a cost savings of over $2.2 billion from 2003 through 2015. Although there were implementation costs to complete the changeover, we will begin to realize significant savings in FY 2007.

Labor Cost Management. Managing our labor costs is a major area of focus, given the size of our payroll and benefits budget—approximately $6 billion in FY 2006. A significant step toward that end is reforming how the agency compensates controllers, its largest single group of employees. In 2006, FAA negotiated a new labor contract with the controller workforce. As a result, the new work rules and pay plan provide substantial taxpayer savings and put into place a long-term affordable controller cost structure.

Strategic Sourcing. This is an important area of focus given the cost reduction accomplishments in private industry. Using industry best practices, we have already achieved strategic sourcing savings in selected areas. During FY 2006 we undertook a strategic sourcing initiative led by the Chief Financial Officer (CFO) that will generate annualized savings of over $6 million for the next 3 years.

In the area of expense control, FAA implemented three critical measures to strengthen acquisition oversight—the CFO must review all procurements of $10 million or more to ensure the investment is appropriate and has adequate financial controls; the Deputy Administrator must approve all support service contracts of $1 million or more with fewer than three bids; and, the CIO must review any acquisition for information technology resources expected to exceed $250,000 in value. Together, these three requirements represent a major effort to better manage the agency's resources and ensure sound business decisions are made..

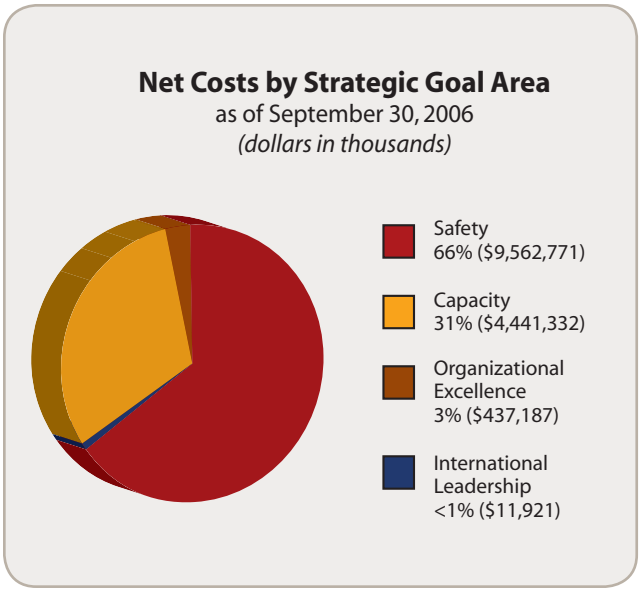
Cost Accounting System. During FY 2006, we completed the implementation of the Cost Accounting System (CAS) in our Airports and Aviation Safety lines of business. With CAS implemented across all lines of business, FAA management can obtain invaluable management information to assess operational performance and make critical business decisions.

Finance Measures. This year we instituted several key measures to determine financial trends and assess financial operations. Results from this year's performance will serve as the baseline for the future and will be the basis for establishing the FY 2007 service-level agreement with the Oklahoma City Finance Center. In addition, we have strengthened capital planning and oversight.

Alignment of FAA Costs and Goals

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

Just under $9.6 billion, or 66% of the $14.5 billion in total net cost for FY 2006, was devoted to our primary goal of ensuring a safe NAS. ATO spent $6.9 billion, largely to support keeping aircraft safely separated in the air and on the ground. ARP directed over $2 billion to establishing safe airport infrastructure. AVS spent slightly more than $569 million on its programs to regulate and certify aircraft, pilots, and airlines, directly



supporting the safety of commercial and general aviation. AST, FAA staff offices, and other programs spent the remaining $33 million to support the agency's safety performance targets and activities.

Nearly $4.4 billion, about 31% of total net costs, was assigned primarily to support FAA's goal of improving the capacity of the NAS. ATO spent $2.6 billion, largely to support its facilities and equipment projects. ARP spent over $1.8 billion to enhance the capacity of the country's airports through runway projects and other efforts, and AST directed more than $2.5 million to the effort to expand capacity.

The bulk of FAA's remaining net costs, just over $437 million, supported its organizational excellence goal. Nearly all the lines of businesses and staff offices contributed to this goal. The remainder, about $11.9 million, was spent to promote FAA's international leadership goal.

Risks and Trends

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

- The number of airline passengers is expected to continue to steadily increase and may climb to 1 billion by 2015. It is projected that by 2025 demands on the system may triple from what they are today. Dealing with these increases will demand even more from FAA resources, which are already feeling the strain.
- Capacity must be expanded to meet increased demand. We will meet these needs by developing new technologies to support the *Integrated National Plan for the Next Generation Air Transportation System* (NextGen). The Plan is a roadmap that will leverage Federal funds and allow us to provide a national aviation system that can handle the safety, capacity, and security needs into our future.
- The financial difficulties facing the airlines and aviation manufacturers affect their ability and willingness to equip aircraft with new technologies that will enhance safety and capacity.
- FAA needs a revenue stream that is related to the actual cost of operating the NAS. The AATF taxes, set to expire in FY 2007, are no longer adequate to offset the costs associated with the safe operation of the NAS. FAA is working to establish a stable, cost-based revenue stream that will ensure funding for long-term capital needs. We are also working with stakeholders to ensure that we are concentrating on services that the customer wants and is willing to pay for.
- Establishing collaborative partnerships with authorities at the state, local, and international levels is a significant challenge as we look to improve safety or expand capacity in the United States and in the international arena. Our ability to succeed depends in part on the willingness of these entities to cooperate and partner in areas such as building new airports, expanding runways, and implementing new technologies.

Performance Highlights

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

This year, FAA had 30 performance measures and targets that focused our efforts to achieve enhanced aviation safety, increase system capacity, provide international leadership, and ensure organizational excellence. As part of our efforts to continuously improve reporting, we redesigned the FAA website and added a section that provides easy access to *Flight Plan* performance and results (see *How Are We Performing* at *www.faa.gov/about/plans_reports/*). Our performance measures support FAA's mission to provide citizens with a safe, secure, and efficient global aviation system.

Despite significant increases in air traffic and the resulting demands on our system during the year, FY 2006 proved to be another year of impressive success for FAA. Through the combined efforts of our employees and industry partners, we were able to achieve 27 of 30 goals—a 90% success rate. The Performance at a Glance chart provides a snapshot of our results.

FY 2006 PERFORMANCE AT A GLANCE

Performance Measure	FY 2006 Target	FY 2006 Results	FY 2006 Status	FY 2007 Target
SAFETY				
Commercial Air Carrier Fatal Accident Rate	0.018	0.020[1]	▲	0.010
General Aviation Fatal Accidents	337	297[1]	●	331
General Aviation Alaska Accidents	115	102[1]	●	110
Runway Incursions (rate)	0.551	0.458[2]	●	0.530
Commercial Space Launch Accidents	0	0	●	0
Operational Errors (rate)	4.27	4.09[2]	●	4.20
Safety Risk Management (number of changes)	3	4	●	3
CAPACITY				
Average Daily Airport Capacity (35 Operational Evolution Plan [OEP] airports)	101,191	101,932	●	101,595
Average Daily Airport Capacity (8 metropolitan areas)	68,750	69,630	●	68,750
Annual Service Volume	1.00% (4 runways)	1.67% (4 runways)	●	1.00% (1 runway)
Adjusted Operational Availability (35 OEP airports)	99.50%	99.78%[2]	●	99.50%
NAS On-Time Arrivals	87.40%	88.36%	●	87.40%
Noise Exposure	–4.00%	–27.00%[3]	●	–5.00%
Aviation Fuel Efficiency	–5.00%	–8.23%	●	–5.00%

FY 2006 PERFORMANCE AT A GLANCE				
Performance Measure	**FY 2006 Target**	**FY 2006 Results**	**FY 2006 Status**	**FY 2007 Target**
INTERNATIONAL LEADERSHIP				
Aviation Safety Leadership	< 0.060 (in China)	0.054	●	TBD
Bilateral Safety Agreements	2	4	●	1
External Funding	20.00%	69.38%	●	20.00%
GPS-Based Technologies	1	1	●	1
ORGANIZATIONAL EXCELLENCE				
Employee Attitude Survey (cumulative percent increase)	3.00%	−1.00%	▲	TBD
Cost Control (number of activities per organization)	1	1	●	1
Critical Acquisitions on Budget	85.00%	100.00%	●	87.50%
Critical Acquisitions on Schedule	85.00%	97.44%	●	87.50%
Information Security	0	0	●	0
Customer Satisfaction (ACSI)	65	70	●	66
Cost-Reimbursable Contracts	85.00%	102.00%	●	85.00%
Mission-Critical Positions	−10.00%	−19.75%	●	−15.00%
Reducing Workplace Injuries	2.85 /100	2.21[4]	●	TBD
Clean Audit With No Material Weaknesses (NMW)	Clean Audit w/NMW	Qualified Opinion	▲	Clean Audit w/NMW
Grievance Processing Time	Set Baseline	146 days	●	−10.00%
Air Traffic Controller Hiring Plan (within 5% of plan)	−5.00%	+20.00%[5]	●	−5.00%

● Green: Goal Achieved
▲ Red: Goal Not Achieved

Notes:
TBD: To be determined.
1) Preliminary estimate. Final data will be available in May 2008.
2) Preliminary estimate. Final data will be available in January 2007.
3) Projection from trends. Final data will be available in May 2007.
4) Projection from trends. Final data will be available in mid November 2006.
5) Preliminary estimate. Final data will be available in November 2006.

SAFETY

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

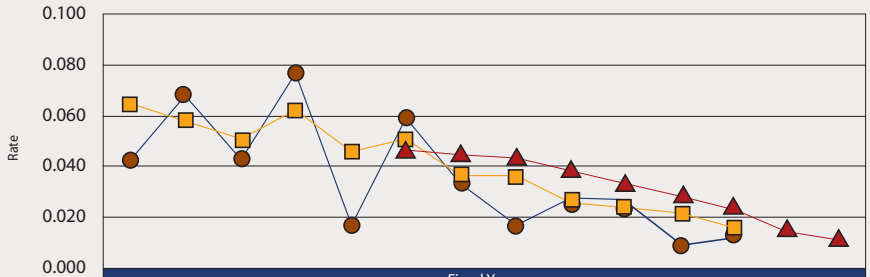
Safety is our primary responsibility. It is central to the public's interest and the economic health of aviation. Although commercial aviation continues to be one of the safest forms of transportation, the public demands continued improvement in safety. General aviation also plays an important role in both the U.S. transportation system and the economy. We continue to focus our efforts on reducing the incidence of all types of general aviation accidents.

COMMERCIAL AIR CARRIER FATAL ACCIDENT RATE

GOAL: Reduce fatal accident rate to 0.018 per 100,000 departures.

▲ RESULTS: NOT ACHIEVED

Commercial Air Carrier Fatal Accident Rate
Per 100,000 Departures



	Fiscal Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Fatal Accident Rate		0.043	0.068	0.043	0.077	0.017	0.059	0.033	0.017	0.028	0.027	0.009	0.017[1]	0.034[3]	N/A
3-Year Average		0.065	0.058	0.051	0.063	0.046	0.051	0.037	0.037	0.026	0.024	0.021	0.017[2]	0.020[3]	N/A
Target		N/A	N/A	N/A	N/A	N/A	0.046	0.045	0.043	0.038	0.033	0.028	0.023	0.018	0.010

[1] Preliminary estimate until May 2007. Revised from original estimate of 0.016.
[2] Preliminary estimate until May 2007.
[3] Preliminary estimate until May 2008.

FAA missed its target and achieved a FY 2006 commercial air carrier fatal accident rate of 0.020 fatal accidents per 100,000 departures (preliminary estimate). The 0.020 fatal accidents per 100,000 departures translate to about one fatal accident per 5 million departures. Accidents involving passenger fatalities have a rate of about one for every 18 million departures.

While this is one of the safest periods in aviation history, during FY 2006 four fatal accidents occurred. In late August 2006, the commercial aviation industry experienced the tragic loss of a commuter jet with 49 fatalities in Lexington, Kentucky. Earlier in the fiscal year, two fatal accidents occurred on the ground and a fatal accident occurred shortly after take-off in Miami. Each of these fatalities is a sobering reminder for us to continue our focus on safety.

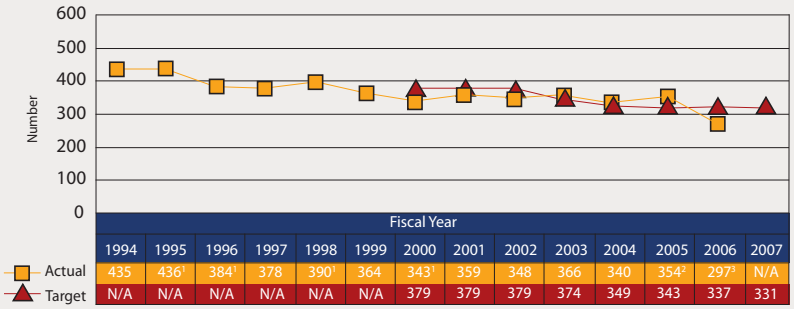
Since 2001, prior to the Kentucky accident, there had been 50 million successful flights. This represents 2.7 billion passengers who flew on commercial jet aircraft in the United States without an onboard fatality. The number of passengers flown safely is nine times the population of our country.

GENERAL AVIATION FATAL ACCIDENTS

GOAL: Reduce the number of general aviation and nonscheduled Part 135 fatal accidents to 337.

● RESULTS: ACHIEVED

Number of General Aviation Fatal Accidents



Fiscal Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Actual	435	436[1]	384[1]	378	390[1]	364	343[1]	359	348	366	340	354[2]	297[3]	N/A
Target	N/A	N/A	N/A	N/A	N/A	N/A	379	379	379	374	349	343	337	331

[1] Corrected.
[2] Preliminary estimate until May 2007. Revised from original estimate of 350.
[3] Preliminary estimate until May 2008.

FAA met the FY 2006 target for reducing general aviation (GA) fatal accidents. We reduced the number of GA accidents to 297 (preliminary estimate). GA fatal accidents trended significantly lower each month compared to the previous year. Personal, agricultural, and amateur-built operations showed especially sharp improvements.

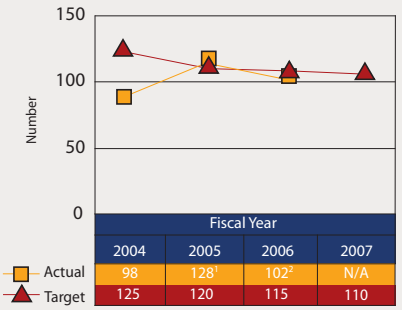
In FY 2006, we worked with various members of the GA community, including aeromedical evacuation, charter services, and others to focus education and training efforts on night landings, weather, and other areas of concern.

ALASKA ACCIDENTS

GOAL: Reduce accidents in Alaska for general aviation and all Part 135 operations to no more than 115 per year.

● RESULTS: ACHIEVED

Number of General Aviation Alaska Accidents



Fiscal Year	2004	2005	2006	2007
Actual	98	128[1]	102[2]	N/A
Target	125	120	115	110

[1] Preliminary estimate until May 2007.
[2] Preliminary estimate until May 2008.

We exceeded our goal of reducing GA accidents and reduced accidents in Alaska to 102 (preliminary estimate). Because of the challenges weather and terrain present in Alaska and the broad use of GA as a means of transportation, FAA's *Flight Plan* focuses specifically on reducing GA accidents in Alaska.

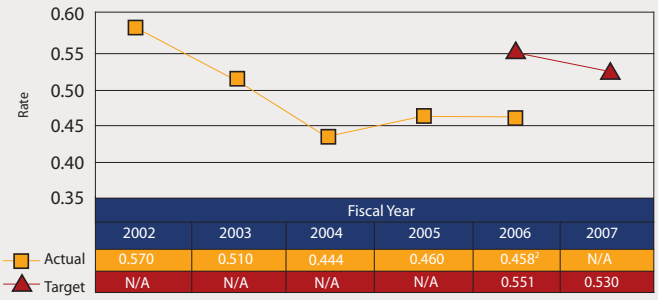
Two programs appear to be making a difference—Circle of Safety and Capstone. Circle of Safety is a consumer education program. CAPSTONE provides pilots information on their positions relative to terrain, as well as real-time weather information in the cockpit. In addition, the introduction of new technology has significantly improved the GA operating environment. Pilots in Alaska can now conduct Required Navigation Performance (RNP) approaches using sophisticated on-board equipment at runways that are normally not accessible in low visibility and bad weather conditions. Also FAA's continuing development of the Automatic Dependent Surveillance-Broadcast technology works at low attitudes and on the ground. It is effective in remote areas or in mountainous terrain where there is no or limited radar coverage.

RUNWAY INCURSIONS

GOAL: Reduce the rate of Category A and B (most serious) runway incursions at towered airports to 0.551 per million operations.

● RESULTS: ACHIEVED

Number of Runway Incursions[1]
Highest Severity – Category A & B



Fiscal Year	2002	2003	2004	2005	2006	2007
Actual	0.570	0.510	0.444	0.460	0.458[2]	N/A
Target	N/A	N/A	N/A	N/A	0.551	0.530

[1]Target changed from number to rate in FY 2006.
[2]Preliminary estimate until January 2007.

We met our goal of reducing the number of Category A and B (most serious) runway incursions. The runway incursion rate was 0.458 (preliminary estimate) per million operations, a significant improvement over the target rate of 0.551.

A runway incursion is any occurrence at an airport involving an aircraft, vehicle, person, or object on the ground that creates a collision hazard or results in a loss of separation with an aircraft taking off, intending to take off, landing, or intending to land. Reducing runway incursions lessens the probability of accidents that involve potential fatalities, injuries, and significant property damage. Working together, FAA and the aviation community have reduced the number of serious runway incursions (Category A and B) by more than 50% from 5 years ago.

COMMERCIAL SPACE LAUNCH ACCIDENTS

GOAL: Prevent fatalities, serious injuries, or significant property damage to the uninvolved public during licensed space launch and reentry activities.

RESULTS: ACHIEVED

Protecting the public during launch operations is an FAA safety mission objective. We achieved this goal for the third year in a row. There were seven licensed launches during the year. No member of the public was killed or injured, and no member of the public suffered any property damage related to commercial space launches.

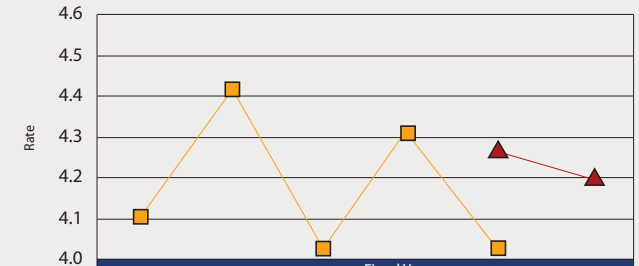
Commercial space transportation is the means by which payloads such as satellites and remote sensing devices are carried to orbit. These payloads provide tremendous benefits to our society. Commercial space launch or reentry accidents can potentially have major catastrophic consequences, involving large losses of life and property. FAA continues to undertake safety initiatives to support industry's perfect record of no commercial space launch accidents.

OPERATIONAL ERRORS

GOAL: Reduce the rate of Category A and B (most serious) operational errors to no more than 4.27 per million activities.

RESULTS: ACHIEVED

Number of Operational Errors[1]
Highest Severity – Category A & B



	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Actual	4.18	4.42	4.06	4.31[2]	4.09[3]	N/A
Target	N/A	N/A	N/A	N/A	4.27	4.2

[1]Target changed from number to rate in FY 2006.
[2]Revised from original preliminary estimate of 4.27.
[3]Preliminary estimate until January 2007.

FAA achieved the FY 2006 goal not to exceed an error rate of 4.27 per million activities. Preliminary estimates indicate there were 4.09 operational errors per million activities, well below the performance limit.

As air traffic continues to increase, reducing the risk of operational errors is one of our top priorities. One of the fundamental principles of aviation safety is the need for separation—to maintain a safe distance from other aircraft, terrain, obstructions, and restricted airspace. Pilots, air traffic controllers, and vehicle drivers share responsibility for reducing operational errors. To address this challenge, we focus on outreach, awareness, technology, and improved procedures and infrastructure.

SAFETY RISK MANAGEMENT

GOAL: Apply safety risk management to at least three significant changes in the national airspace system.

● RESULTS: ACHIEVED

The essence of what FAA does is to improve safety and minimize risk. FAA exceeded this performance target with the application of four safety risk management and hazard assessments to significant changes in the NAS.

Recognizing that there will always be hazards and risks, we proactively identify hazards, assess risk, and reduce all known risks to an acceptable level. This process, known as Safety Risk Management (SRM), is a key element of FAA's Safety Management System (SMS). SMS includes a formal risk management process that describes the system, identifies hazards, and then analyzes, assesses, and controls the risk. FAA's SRM requires risk assessments for all activities or process changes to identify safety impacts.

CAPACITY

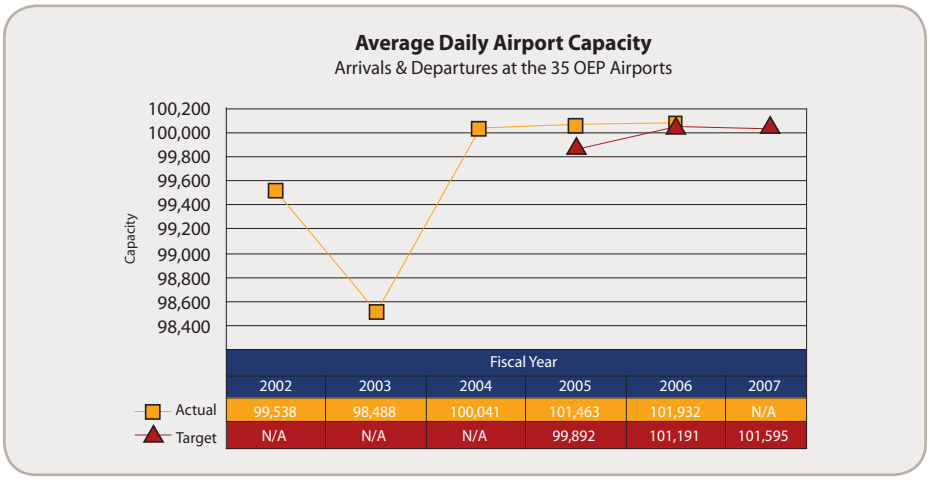
GOAL: Work with local governments and airspace users to provide capacity that meets projected demand in the U.S. airspace system in an environmentally sound manner.

After the terrorist attacks of September 11, 2001, the demand for air travel decreased dramatically. Traffic has greatly increased since then, surpassing pre-September 11 levels. During FY 2006, work continued with local governments and airspace users to improve the design and performance of both aircraft and ground systems. These improvements will accommodate more traffic while easing delays; increase safety and security while addressing noise and air quality; and foster efficient, predictable, and flexible domestic and international air travel.

AVERAGE DAILY AIRPORT CAPACITY (35 OEP AIRPORTS)

GOAL: Increase the average daily arrival plus departure called rates at the 35 Operational Evolution Plan (OEP) airports to 101,191.

● RESULTS: ACHIEVED



We met this performance goal, achieving an average daily capacity of 101,932 for the 35 OEP airports.

To increase capacity, we opened four new runways this year, in Minneapolis/St. Paul, Cincinnati, St. Louis, and most recently in Atlanta, the world's busiest airport. In the past 9 years, 13 new runways have opened at the 35 OEP airports, providing the airports with the potential to allow almost 1.7 million more annual operations. Two Required Area Navigation (RNAV) tools that accommodate air growth and improve efficiency—Standard Instrument Departures (SID) and Standard Terminal Automation Replacement System (STARS)—are producing the most immediate impact toward near-term capacity gains and operator cost savings. Since FY 2005, FAA has published 128 RNAV–SID and STARS procedures, resulting in $8.5 million in reduced delay and capacity benefits.

AVERAGE DAILY AIRPORT CAPACITY (8 METROPOLITAN AREAS)

GOAL: Increase the average daily arrival plus departure called rates at the eight metropolitan areas to 68,750.

● RESULTS: ACHIEVED

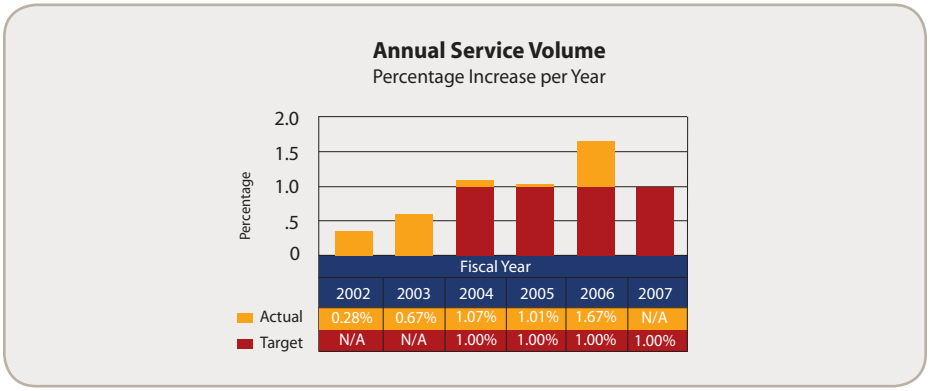
We exceeded our FY 2006 goal, achieving a rate of 69,630.

The eight selected major metropolitan areas—New York, Philadelphia, South Central Florida, Chicago, Baltimore/Washington, Atlanta, Los Angeles Basin, and San Francisco Bay Area—contain both the most congested airspace and the greatest constraints on airport expansion. Airport improvements, measured by increases in capacity at these airports, are likely to contribute the most to reduce the causes of system delay in these areas. With FY 2006 improvements, we have achieved our capacity goals for Atlanta. In June 2006, we commissioned a new runway at Atlanta-Hartsfield Airport, allowing for 33% more operations a year. Therefore, our FY 2007 efforts will focus on the remaining seven major metropolitan areas that affect system delay.

ANNUAL SERVICE VOLUME

GOAL: Increase the Annual Service Volume (ASV) of the 35 OEP airports by at least 1%, measured as a 5-year moving average. Commission four new runway projects.

● RESULTS: ACHIEVED



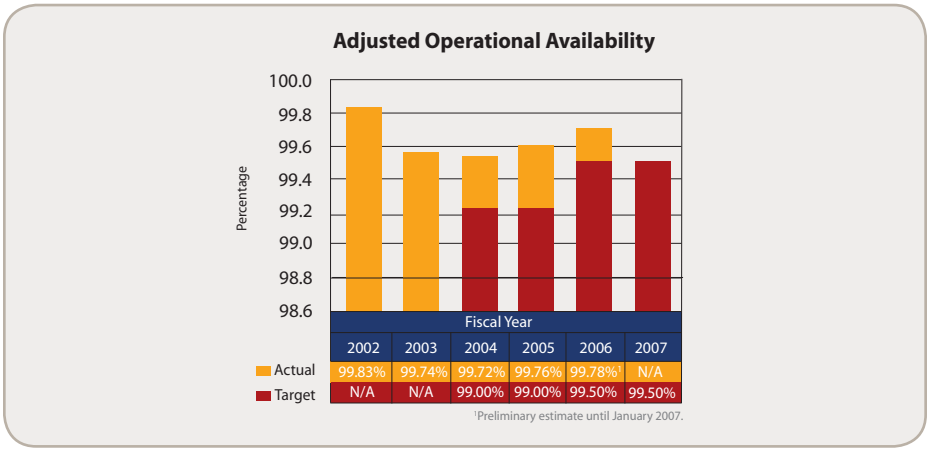
In FY 2006, four new runways were commissioned in Minneapolis/St. Paul, Cincinnati, St. Louis, and Atlanta. The new runways provided these airports with the potential to accommodate 655,000 more annual operations and increased the ASV by 3.27% for FY 2006. The 5-year rolling average for increasing ASV is 1.67%, thus exceeding the *Flight Plan* performance target of 1% for FY 2006.

The annual service volume goal is in place to prevent unreasonable delays at airports. The ASV measure estimates and tracks the increase in airport capacity at the 35 OEP airports and is calculated as a 5-year moving average with 1998 as its base year. A consistent calculation technique is used to estimate capacity for all airports, based on demand schedules and fleet mixes. This is supplemented with flight counts and standard air traffic control procedures for each airport.

ADJUSTED OPERATIONAL AVAILABILITY

GOAL: Sustain adjusted operational availability at 99.50% for the reportable facilities that support the 35 OEP airports.

● RESULTS: ACHIEVED



We met our FY 2006 goal for sustaining adjusted operational availability at 99.50% for the reportable facilities that support the 35 OEP airports, achieving a result of 99.78% (preliminary estimate).

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

NAS ON-TIME ARRIVALS

GOAL: Achieve a NAS On-Time Arrival percentage of 87.40% for all flights arriving at the 35 Operational Evolution Plan (OEP) airports due to NAS-related delays, where on-time is equal to no more than 15 minutes late.

RESULTS: ACHIEVED

We exceeded our FY 2006 target of 87.40%, achieving an on-time arrival rate of 88.36%. On-time performance is a measure of the ability of the FAA to deliver services. A flight is considered on time if it arrives no later than 15 minutes after its published, scheduled arrival time.

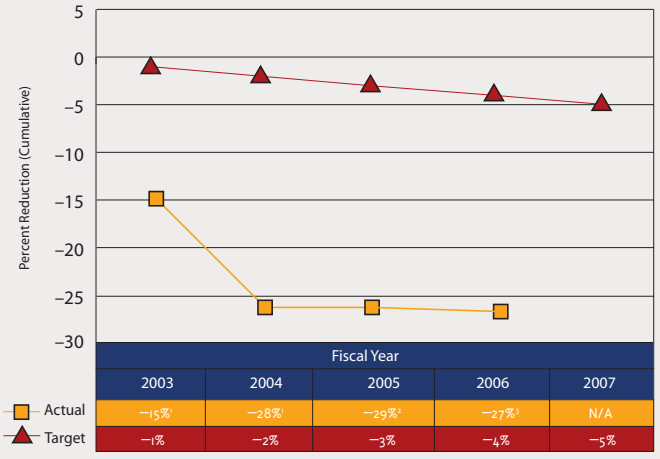
Major factors affecting NAS on-time arrivals include seasonal weather patterns, airport conditions, airport construction projects, and increases in traffic volume. To address these issues, FAA employees at the Air Traffic Control System Command Center have daily meetings with airline industry representatives to coordinate traffic around these factors. Careful collaborative planning with our industry partners on the previous day ensures that aircraft land on time.

NOISE EXPOSURE

GOAL: Reduce the number of people exposed to significant noise, as measured by a 3-year moving average, to 4.00% below the 3-year average for calendar years 2000–2002.

RESULTS: ACHIEVED

Number of People Exposed to Significant Noise
Cumulative Percentage Reduction from Baseline



Fiscal Year	2003	2004	2005	2006	2007
Actual	–15%[1]	–28%[1]	–29%[2]	–27%[3]	N/A
Target	–1%	–2%	–3%	–4%	–5%

[1]Revised from original result.
[2]Revised from projection of –27%.
[3]Preliminary estimate until May 2007.

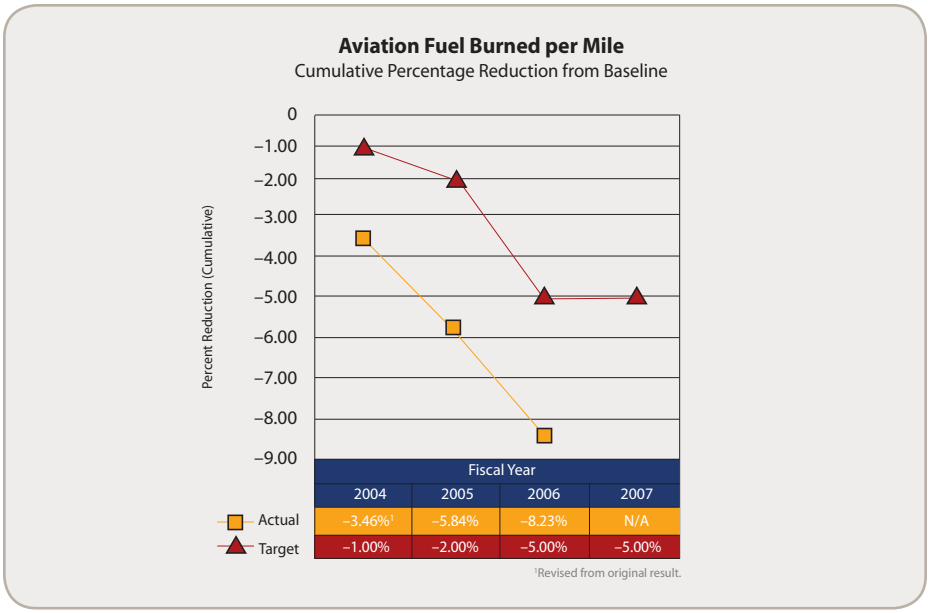
We exceeded this performance target by reducing the number of people exposed to significant noise by 27%, as measured by a 3-year moving average.

The significant improvement in noise reduction performance over the targeted goals results from a confluence of several external factors. Aircraft noise is an undesired by-product of mobility, and FAA seeks to reduce the public's exposure to unreasonable noise levels. These factors produced a dramatic downturn in operations as well as a large-scale retirement of older aircraft.

AVIATION FUEL EFFICIENCY

GOAL: Improve aviation fuel efficiency per revenue plane-mile by 5%, as measured by a 3-year moving average, from the 3-year average for calendar years 2000–2002.

● RESULTS: ACHIEVED



We achieved the aviation fuel efficiency performance target by improving fuel efficiency per revenue plane-mile by 8.23%.

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

Improvements stem from a combination of operational changes including size of aircraft in the national fleet, flight duration, and airspace enhancements. FAA is currently reviewing the impact of air traffic system enhancements and changes in operational trends to assess whether revised performance metrics and future targets will better represent and capture system performance.

INTERNATIONAL LEADERSHIP

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

The United States has long been a leader in the global civil aviation system. In addition to controlling nearly half the world's air traffic, FAA has provided direct and indirect aviation assistance to 131 countries. As a leader, we must promote safety by broadening the international network of partnerships with civil aviation authorities around the world to make air travel as safe and efficient abroad as it is at home. We assess international performance through four performance measures.

AVIATION SAFETY LEADERSHIP

GOAL: Reduce the 5-year rolling average commercial air carrier fatal accident rate in China to below 0.060 per 100,000 departures.

RESULTS: ACHIEVED

For FY 2006, the target was achieved with a rate of 0.054. (This was a new performance measure in FY 2006, so no trend data are available.)

China is experiencing enormous growth in aviation, with a 20% increase in departures per year. The challenge is to maintain China's safety performance during rapid growth of the aviation system. China has agreed to implement safety enhancements from the Commercial Aviation Safety Team (CAST). These CAST enhancements can be shared across countries and can be measured for implementation. By focusing on the root causes of the most common kinds of fatal accidents, such as Controlled Flight into Terrain (CFIT), CAST provides a proven means of improving safety and fatal accident rates.

BILATERAL SAFETY AGREEMENTS

GOAL: Conclude at least two new or expanded bilateral safety agreements that will facilitate an increase in the ability to exchange aviation products and services.

RESULTS: ACHIEVED

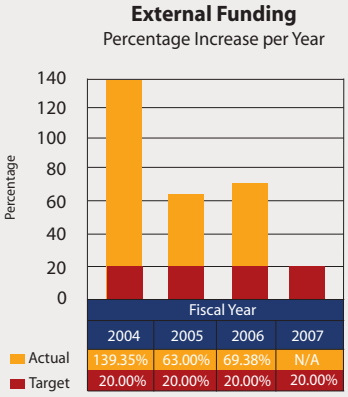
In FY 2006 we met our target, concluding four implementation procedures: one with New Zealand, one with Switzerland, and two with Canada.

A Bilateral Aviation Safety Agreement promotes aviation safety and environmental quality, enhances cooperation, and increases efficiency in civil aviation matters. The agreements are based on recognized comparability of U.S. and foreign systems for approval and surveillance of the aviation industry. Improved global understanding of U.S. safety regulations, processes, and procedures leads to better international regulatory oversight. These agreements lay the essential groundwork for cooperation between the United States and the respective target country's aviation authorities.

EXTERNAL FUNDING

GOAL: Secure an increase of 20% in intellectual and financial assistance over the FY 2005 level.

RESULTS: ACHIEVED



We exceeded our FY 2006 goal of increasing funding by 20%, with an increase of 69.38% over the FY 2005 funding level.

Often countries that could benefit the most from FAA technical assistance are the least able to afford our help. In FY 2006, we arranged more than $33 million in funds for technical assistance and infrastructure development programs, approximately $13.5 million more than in FY 2005 and a six-fold increase over the $5 million secured in the base year of FY 2003. FAA secured $25 million from USAID to finance infrastructure and capacity building projects in Afghanistan.

GPS-BASED TECHNOLOGIES

GOAL: Expand the use of Global Positioning System (GPS)-based technologies and procedures to one priority country.

RESULTS: ACHIEVED

FAA achieved its goal to expand the use of GPS-based technologies and procedures by working with the Mexican government on the installation of multiple reference stations.

Through our bilateral efforts and projects, we successfully completed the initial installation of Wide Area Augmentation System (WAAS) reference stations in Merida and Puerto Vallarta, Mexico. WAAS provides service for all classes of aircraft in all flight operations—including en route navigation, airport departures, and airport arrivals.

ORGANIZATIONAL EXCELLENCE

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

Organizational excellence is an ongoing challenge. Our performance measures this year continued with an external focus on improving customer satisfaction and the launch of a more concerted internal effort to improve our business processes. These internal improvements included better management of our acquisitions, faster hiring for mission-critical positions, shoring up the security of our information, and reducing costs.

EMPLOYEE ATTITUDE SURVEY

GOAL: Increase Employee Attitude Survey (EAS) scores in the areas of management effectiveness and accountability by at least 3%.

▲ RESULTS: NOT ACHIEVED

We did not meet the target of a 3% increase over the baseline of 35%. In FY 2006, EAS scores decreased by 1%. (*Note:* Since no survey was conducted in FY 2004, no trend data are available for this measure.)

The EAS is FAA's primary tool for measuring employees' perceptions of critical management processes and practices. The EAS metric value was 34% positive, which is below the FY 2006 target of 38%. More detailed information on the EAS results will become available in January 2007, at which time FAA will address why the target was not met and take appropriate action.

COST CONTROL

GOAL: Ensure that each FAA organization contributes at least one measurable and significant cost efficiency and/or productivity improvement activity each year.

● RESULTS: ACHIEVED

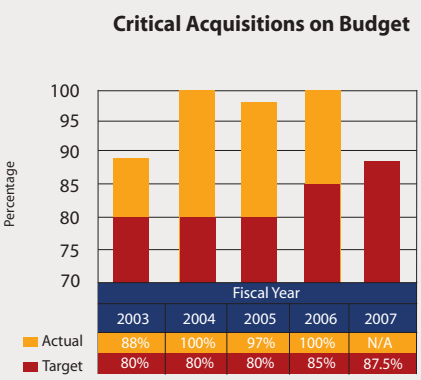
FAA achieved its cost control goal for FY 2006. Each organization contributed a cost reduction activity resulting in cost savings or cost avoidance. (This was a new performance target in FY 2005, so no trend data are available.)

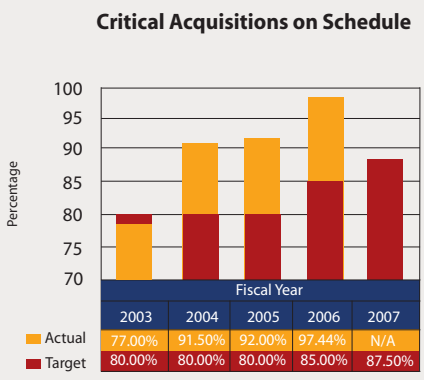
FAA's operating costs have increased significantly over the past decade, and the cost control program enables us to aggressively stem the growth of operating costs. In FY 2006 we estimated accrued benefits of over $50 million. We also found that cross-organizational initiatives, primarily in information technology and human resources, provide the greatest impact.

CRITICAL ACQUISITIONS ON BUDGET / CRITICAL ACQUISITIONS ON SCHEDULE

GOAL: Make sure 85% of critical acquisition programs are on schedule and 85% of critical acquisition programs are within 10% of budget as reflected in the Capital Investment Plan.

● RESULTS: ACHIEVED





FAA met its performance goals for both Critical Acquisitions on Budget and Critical Acquisitions on Schedule. We achieved 100.00% and 97.44% of our goals for on budget and on schedule, respectively. FAA tracked 39 milestones against 29 acquisition programs for this performance measure and has met the targets for both cost and schedule.

Our success in meeting these yearly acquisition goals is attributable to our continued efforts to incorporate and apply effective management control processes as well as to use Earned Value Management techniques for contracts where there is significant risk to the Government.

In this way, FAA ensures that taxpayer dollars spent through its acquisition programs achieve required performance outcomes by tracking cost and schedule milestones.

INFORMATION SECURITY

GOAL: Protect FAA's IT assets, ensuring that there are zero cyber security events that significantly disable or degrade FAA services.

● RESULTS: ACHIEVED

FAA met its goal to achieve zero cyber security events that disable or significantly degrade services through the CSIRC. (This measure was redefined in FY 2005, so no trend data are available.)

FAA has an information security mandate to protect the agency's IT assets in accordance with numerous executive and legal requirements. During FY 2006, about 5 million monthly cyber attack attempts were made on our network. No successful cyber events significantly disabled or degraded our service. We achieved 100% of the FY 2006 milestones for the information security program and embarked on several initiatives to maintain current certification and authorization of 100% of our IT systems, including air traffic control systems.

CUSTOMER SATISFACTION

GOAL: Increase agency scores on the American Customer Satisfaction Survey to 65.

● RESULTS: ACHIEVED

FAA met its customer satisfaction FY 2006 target of 65 or higher, achieving a score of 70.

The agency uses the American Customer Satisfaction Index (ACSI) to measure customer satisfaction with commercial pilots. Commercial pilots, who hold current commercial certificates, are asked about air traffic control personnel and services, pilot certification processes, and the clarity of regulations and how they contribute to aviation safety. This year's results show continued improvement—an FY 2006 jump of 4 points. Since 1999, the FAA has increased its score with commercial pilots by 12 points.

COST-REIMBURSABLE CONTRACTS

GOAL: Close out 85% of eligible cost-reimbursable contracts.

● RESULTS: ACHIEVED

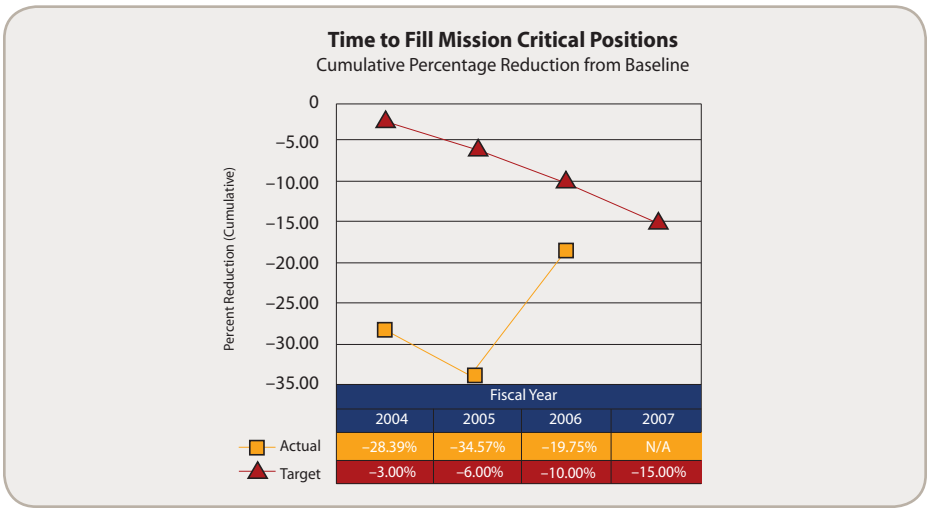
FAA works aggressively to close out contracts on a timely basis to avoid potentially large liabilities. The FY 2006 target was based on the number of flexibly priced contracts that were eligible for close-out in FY 2005 (62 contracts). The target required close-out of 85% of that number, or 53 contracts, in FY 2006.

FAA exceeded its goal of closing out 53 of 62 eligible contracts (85%). We closed 63 contracts, one more than were eligible for close out in FY 2005. Our increased emphasis on timely close-out actions, specifically our tracking process and monthly status updates, contributed to the wide margin by which we exceeded this target. (This measure was redefined in FY 2005, so no trend data are available.)

MISSION-CRITICAL POSITIONS

GOAL: Reduce the time to fill mission-critical positions by 10% over the FY 2003 baseline median of 81 days.

● RESULTS: ACHIEVED



One crucial element of ensuring safety and greater efficiency through organizational excellence is an efficient and high-quality hiring process for filling mission-critical positions (MCPs). In FY 2006 we exceeded our target of filling MCPs within 73 days.

In FY 2006, it took a median of 65 days to fill MCPs, excluding Air Traffic Controller (ATC) positions. This represents a 19.75% reduction over the FY 2003 baseline. (In FY 2006 ATC positions were excluded from the MCP goal because the complex hiring process disproportionately skewed the performance results.)

REDUCING WORKPLACE INJURIES

GOAL: Reduce the total workplace injury and illness case rate to no more than 2.85 per 100 employees by the end of FY 2006.

● **RESULTS: ACHIEVED**

We achieved a 2.21 rate (projected) per 100 employees. (This was a new performance measure in FY 2006, so no trend data are available.)

The measure addresses work-related injuries and illnesses to FAA employees only. National Occupational Safety and Health Program Evaluations conducted in 2006 and prior years identified opportunities to reduce injury and illness in the various FAA workplaces. The *Flight Plan* initiative to reduce workplace injuries involves a comprehensive program that includes the implementation of policy, oversight, program planning, work safety training, facility inspections, providing personal protective equipment, data analysis, mishap and hazard identification, and abatement.

CLEAN AUDIT WITH NO MATERIAL WEAKNESSES

GOAL: Obtain an unqualified opinion on the agency's financial statements (clean audit with no materials weaknesses) each fiscal year.

▲ **RESULTS: NOT ACHIEVED**

FAA received a qualified opinion on its FY 2006 financial statements and a material weakness due to the lack of supporting documentation on our capitalization process.

The clean audit target is a critical indicator of an agency's financial condition because it independently assesses the fair presentation of FAA's financial statements and, in connection with that process, considers the internal controls over financial reporting. After 5 years of unqualified opinions, we received a qualified opinion on our FY 2006 financial statements. The qualification is limited to the Construction in Progress (CIP) account within our Property, Plant, and Equipment line on our Consolidated Balance Sheet. Early in FY 2007, we developed a corrective action plan to validate the CIP balance and institute long-term policy and procedure changes that will allow us to routinely monitor and measure the status of our capitalization efforts and our CIP balance.

GRIEVANCE PROCESSING TIME

GOAL: Determine a grievance processing baseline for grievance processing time performance measure.

● RESULTS: ACHIEVED

FAA achieved its performance goal in FY 2006 and established a baseline average of 146 days for processing grievances. (This was a new performance measure in FY 2006, so no trend data are available.)

This FY 2006 performance target is a new measure and focuses on reducing grievance processing time to resolve employee and union complaints at the lowest level possible with the least amount of time, resources, and disruption to the work environment and mission. The *Flight Plan* calls for a 25% total reduction in grievance processing time to be reached between FY 2007 and FY 2010. To help achieve this reduction, FAA deployed the Grievance Electronic Tracking System (GETS), a new database that collects, tracks, and reports on grievance information and processing time.

AIR TRAFFIC CONTROLLER HIRING PLAN

GOAL: Maintain air traffic controller annual hiring within 5% of the Air Traffic Controller Workforce Hiring Plan.

● RESULTS: ACHIEVED

FAA exceeded the FY 2006 target of hiring 930 controllers and hired 1,116 controllers, 20% above the target. (This was a new performance measure in FY 2006, so no trend data are available.)

In FY 2006 we completed the update of the *Air Traffic Controller Workforce Hiring Plan* to address anticipated retirement and replacement of ATCs over the coming decade. The revised document outlines the agency's plans to hire more than 11,800 new ATCs over the next 10 years. To manage turnover, we are reducing the time required to hire and train a new controller. The goal is to decrease the time it takes a new hire to become a certified professional controller from 3 to 5 years, down to 2 to 3 years.

SAFER RUNWAYS WITH ASDE-X

As airports have grown busier over the years, the potential for collisions on airport runways and taxiways has increased as well. To combat this trend, the FAA has developed a new runway safety tool—Airport Surface Detection Equipment, Model X (ASDE-X).

ASDE-X enables air traffic controllers to detect potential runway conflicts by providing detailed coverage of movement on runways and taxiways. By collecting data from a variety of sources, ASDE-X can track vehicles and aircraft on airport surfaces and obtain identification information from aircraft transponders.

The data that ASDE-X uses comes from a surface-movement radar located on the air traffic control tower or remote tower, multilateration sensors, ADS-B (Automatic Dependent Surveillance-Broadcast) sensors, the terminal automation system, and from aircraft transponders. By combining the data from these sources, ASDE-X determines the position and identification of aircraft and vehicles on the airport surfaces, as well as of aircraft flying within 5 miles of the airport.

Controllers see this information presented as a color display of aircraft and vehicle positions overlaid on a map of the airport's runways/taxiways and approach corridors. The system creates a continuously updated map of all airport-surface operations that controllers can use to spot potential collisions. It will be especially useful at night or in bad weather when visibility is poor. We are in the process of enhancing ASDE-X with visual and audio alarms that will alert controllers to possible collisions.

For more information: www.faa.gov/news/fact_sheets/news_story.cfm?newsId=6296

President's Management Agenda

The President's Management Agenda (PMA) is a set of initiatives designed to make the Federal Government more citizen centered, results oriented, and market based. The Organizational Excellence targets in the *Flight Plan* support DOT's goal to achieve "green" on the PMA. To do this, DOT asks FAA to set targets and measure performance as a way to hold them accountable for results.

FY 2006 PRESIDENT'S MANAGEMENT AGENDA SCORECARD FOR THE DEPARTMENT OF TRANSPORTATION

Initiative	Status	Progress
Strategic Management of Human Capital: Address workforce gaps, eliminate skill gaps, develop performance-based incentives, ensure citizen-centered organizations, and ensure a robust leadership pipeline.	●	●
Competitive Sourcing: Develop a competitive sourcing plan for activities designated commercial in nature, with the goal of providing higher quality, more cost-effective services to the public.	●	◆
Improved Financial Performance: Implement financial management systems capable of producing more timely and accurate information for decision-making, and maintain unqualified opinions on financial statements.	▲	●
Expanded Electronic Government: Better justify and track IT projects, and participate in Government-wide initiatives to automate transactions, reduce redundancies, and increase efficiencies.	●	◆
Budget and Performance Integration: Improve management through regular, systematic measurement and accountability for program performance compared to predetermined goals.	●	●
Real Property Asset Management: Improve the process for managing real property assets through increased management attention, the establishment of clear goals and objectives, improved policies, and levels of accountability.	◆	●
Eliminating Improper Payments: Reduce improper payments through identification of at-risk programs and establishment of a plan for corrective action. Set recovery targets and, where appropriate, work to meet them.	▲	●

Key:
"Status" indicates DOT's success in fulfilling the initiative. "Progress" indicates the rate at which DOT is moving toward success.

- ● *Green:* OMB's core criteria met.
- ◆ *Yellow:* Some, but not all, of OMB's core criteria met; no "red" conditions.
- ▲ *Red:* At least one of OMB's core criteria has not been met.

For a more detailed description of the President's Management Agenda, see the OMB website at *www.whitehouse.gov/omb/budintegration/pma_index.html*

Management Challenges

The DOT Office of Inspector General (OIG) identified five management challenges facing FAA in the coming years. A detailed discussion of these challenges appears in FAA's *FY 2006 Performance and Accountability Report*. Information on obtaining copies appears on the inside back cover of this document.

1) **Working With Other Agencies To Respond to Disasters and Address Transportation Security**

   The DOT OIG identified challenges that relate to interagency collaboration in responding to disasters and enhancing transportation security. The DOT OIG noted that, with the experiences of Hurricanes Katrina and Rita behind us, along with our growing collaboration with the Department of Homeland Security and other Federal agencies, FAA has made great progress in our ability to respond to disasters and address transportation security within the national airspace. Although we may conclude that we have met the challenge presented by the Office of the Inspector General, the issue of disaster preparedness must be continually monitored and adjusted as needs dictate. FAA will take advantage of every opportunity to evaluate internal practices and partner with Federal, state, and local officials to improve our disaster response capabilities as well as our support to the security of the nation's transportation sector.

2) **Mitigating Flight Delays and Relieving Congestion—Actions Needed To Meet Demand**

   FAA faces challenges in its efforts to increase system capacity. The DOT OIG noted that FAA must take appropriate action against growing aviation delays, keep planned infrastructure and airspace projects on schedule to relieve congestion and delays, continue efforts to redesign the national airspace system, and explore alternatives for managing capacity when infrastructure and airspace redesign initiatives are not feasible.

3) **Reauthorizing Aviation Programs—Establishing Requirements and Controlling Costs Are Prerequisites for Examining FAA Financing Options**

   The DOT OIG found that FAA needed to continue efforts to control support services contracts, control major acquisitions costs by delivering new systems on time and within budget, complete implementation of a cost accounting system in order to reduce costs and improve operations, establish requirements for the Next Generation Air Traffic Management System, and address attrition of air traffic controllers.

4) **Developing Effective Oversight Programs for Air Carrier Operations, Repair Station Maintenance, and Operational Errors**

   To continue improvements in aviation safety, the DOT OIG recommends that FAA focus on ensuring accurate reporting of operational errors and implement a risk-based approach to air carrier and repair station oversight.

5) **Improving Information Technology Investment and Computer Security**

   The DOT OIG found that FAA should take the following steps to improve its IT investment and computer security. FAA can improve its IT investment by clarifying the role of the DOT Investment Review Board in advising the Secretary of Transportation on how best to maximize the value and manage the risk of major IT investments. The agency must also work to better secure its air traffic control systems.

FINANCIAL HIGHLIGHTS

Chief Financial Officer Ramesh Punwami described FAA's efforts to improve its financial management in an article that appeared in the July 15, 2006, edition of *Government Executive* magazine. FAA was recognized in March 2006 by the Government Accountability Office as an example of how performance, budgeting, and financial information can enhance performance monitoring.

Credit: Patrice Gilbert

A Message From the Chief Financial Officer

This has been another year of significant accomplishments for FAA. We continue to make great strides in our efforts to provide the traveling public with the safest national airspace system in the world, while focusing on operating like a business and achieving excellence in financial management. In FY 2006, there have been significant accomplishments that are outlined below.

- After 5 consecutive years of clean audits, we received a narrow qualified opinion on our financial statements. The qualification was related to the accuracy of the Construction in Progress (CIP) account, with a related material weakness for lack of supporting documentation and a need for strengthened policies and procedures in the capitalization process. The circumstances of the qualification of the CIP balance occurred late in the fiscal year, and we were unable to satisfy ourselves and our auditors on the accuracy of the balance because of the complexity of the CIP process and the need for a more comprehensive review of financial transactions. However, we are addressing this situation aggressively and are implementing a corrective action plan that will encompass the immediate preparation of the necessary documentation to support the CIP balance. In addition, we will implement changes in policies and procedures, financial organizational structure, and performance metrics to improve accountability for all capital asset tracking going forward.
- We received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants for our *FY 2005 Performance and Accountability Report*. This represents the third consecutive year that FAA has won this prestigious award, and we were one of only nine Federal Government agencies to receive this distinction. FAA also received its third consecutive award from the League of American Communications Professionals for its *FY 2005 Performance and Accountability Highlights*, recognizing it as one of the top annual reports in the country.
- We received ISO 9001 certification for our safety oversight processes. ISO 9001 is a set of standards that provide quality management guidance. To continue our focus on ensuring the safest aviation system in the world, FAA now documents what we do to ensure safety and we do what we document.
- We controlled costs by reducing nonsafety staff by almost 10% and executive level staff by more than 20%. The largest outsourcing effort in the Federal Government (FAA Flight Service Stations) is starting to realize benefits that will save $1.7 billion over the next 10 years. In addition, a recent consolidation in the Air Traffic Organization—FAA's largest line of business—will save $450 million over 10 years.
- We implemented a new contract with air traffic controllers that will result in anticipated cost savings/avoidance of $1.9 billion over 5 years. FAA also released its annual update of the *Air Traffic Controller Workforce Hiring Plan* designed to address anticipated retirement and replacement of controllers over the next 10 years.
- We continued to implement our pay-for-performance system. The compensation of more than 83% of our workforce is now tied to the achievement of FAA performance goals.
- We consolidated services and facilities by centralizing accounting, real property management, and human resources support.
- We aggressively introduced cost efficiencies through strategic sourcing and consolidation of web services, application software, servers, and help desks.

We have come a long way in a short time. Seven years ago, FAA's financial management was placed on the Government Accountability Office's (GAO) high risk list. This year, GAO cited FAA as an example for other Federal agencies in reporting performance, budget, and financial information to Congress. Our record of excellence in financial management is a result of the efforts of our dedicated staff who work to ensure the accuracy of our financial data and the efficiency of our processes. Our focus on excellence in all aspects of our operations is the foundation of our commitment to the business of safety.

Ramesh K. Punwani
Assistant Administrator for Financial Services/Chief Financial Officer
November 3, 2006

FAA has received three consecutive Certificate of Excellence in Accountability Reporting awards from the Association of Government Accountants.

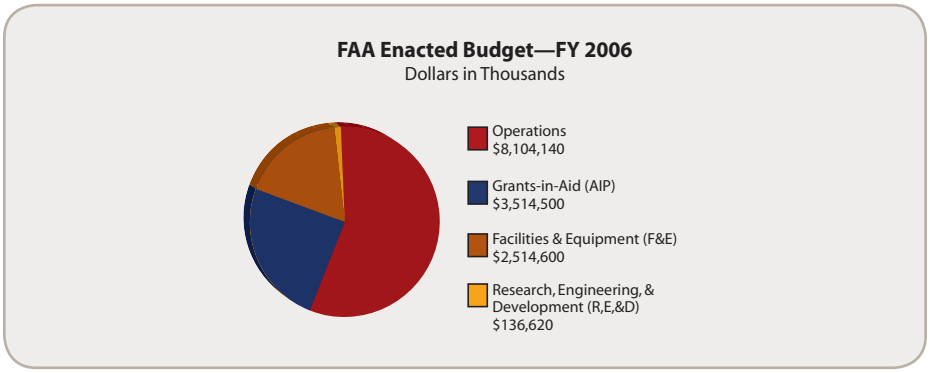
Financial Highlights

Highlights of our FY 2006 financial performance appear on the pages that follow. For a more detailed discussion of FAA's financial statements and accompanying notes, see our *FY 2006 Performance and Accountability Report*, which is available on the FAA website at *www.faa.gov/about/plans_reports/*.

The Airport and Airway Trust Fund provided approximately 82% of FAA's FY 2006 budget. Created by the Airport and Airway Revenue Act of 1970, the AATF derives its monies from excise taxes and earned interest. To the extent funds are available, the AATF 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 AATF. The Department of the Treasury maintains the AATF and invests its monies in Government securities, and interest earned is also deposited into the AATF. Monies are withdrawn as needed and transferred into each FAA appropriation to cover obligations.

FAA is financed through annual and multiyear appropriations authorized by Congress. The FY 2006 enacted budget of $14.3 billion was approximately 3% higher than the FY 2005 enacted level. The Combined Statement of Budgetary Resources reflects funding enacted by the FY 2006 Consolidated Appropriations Act, Public Law 109-115. The FY 2006 levels reflect an across-the-board rescission of 1%.

FAA has four appropriations. The largest, Operations, is funded by both the Treasury's General Fund and the AATF. In FY 2006, the AATF provided nearly 68% of the revenue for Operations. The AATF is the sole revenue source for FAA's three capital investment appropriations: Facilities and Equipment (F&E) ; Research, Engineering, and Development (R,E,&D) ; and Grants-in-Aid for Airports (AIP).



Operations. The Operations appropriation finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It funds the salaries and costs associated with carrying out FAA's safety inspection and regulatory responsibilities as well. The account also covers administrative and managerial costs for FAA's international, medical, engineering, and development programs and for policy oversight and overall management functions. The FY 2006 Operations appropriation was $8.1 billion, an approximately 5% increase over FY 2005, primarily attributable to payroll and inflation costs, as well as $148.5 million provided to cover one-time transition costs related to the A-76 Flight Service Station contract.

Facilities and Equipment (F&E). The programs funded by the F&E appropriation are FAA's principal means of modernizing and improving air traffic control and airway facilities. The account also finances major capital investments required by other agency programs as well as other improvements to enhance the safety and capacity of

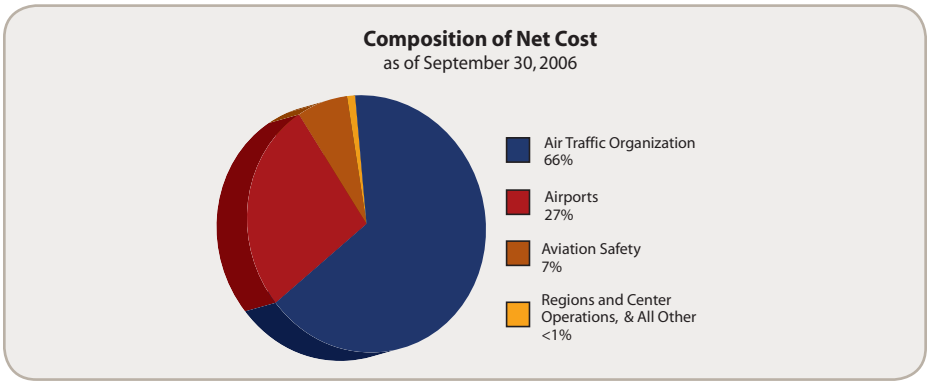
the national airspace system. F&E was funded at $2.5 billion in FY 2006, approximately the same level as in FY 2005. Major systems included En Route Automation, Terminal Automation, Oceanic Automation, the Wide-Area Augmentation System (WAAS), ASDE-X, Airport Surveillance Radar, FAA's Telecommunications Infrastructure (FTI), and Terminal Air Traffic Control Facilities replacement.

Research, Engineering, and Development (R,E,&D). The FY 2006 appropriation for R,E,&D was nearly $137 million, 5% more than in FY 2005. R,E,&D funds were applied to research programs to improve the safety and effectiveness of the air traffic control system. In FY 2006, programs focused on the environment and energy, weather initiatives, JPDO activities, human factors, and aircraft safety.

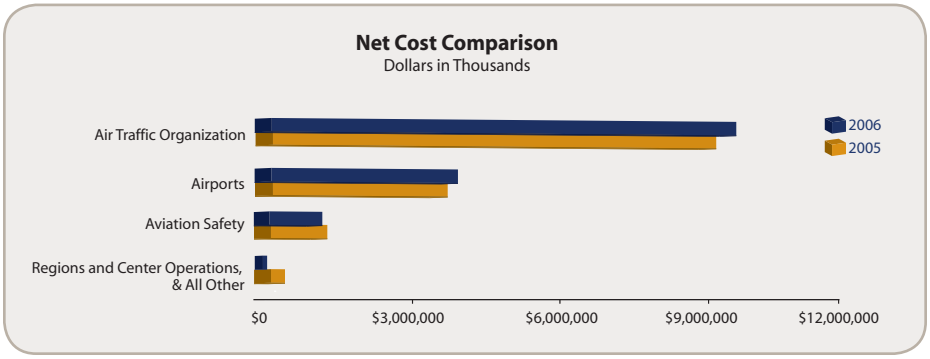
Airport Improvement Program (AIP). The Secretary of Transportation is authorized to award grants for planning and development to maintain a safe and efficient nationwide system of public airports. These grants fund approximately one-third of all capital development at the nation's public airports. Grants 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 2006 funding for AIP was just over $3.5 billion, a 1.2% increase over the FY 2005 level. Funding for the Small Community Air Service program was reduced by 50% over the FY 2005 level of $19.8 million, to $9.9 million.

FAA's summarized net cost of operation is shown on page 44. For the fiscal years ending September 30, 2006 and 2005, FAA's net costs were $14.5 billion and $14.0 billion respectively. Net cost is total program cost less related earned revenue.

The Composition of Net Costs chart illustrates the distribution of costs among FAA's lines of business.



The Net Cost Comparison chart compares FY 2005 and FY 2006 net costs.



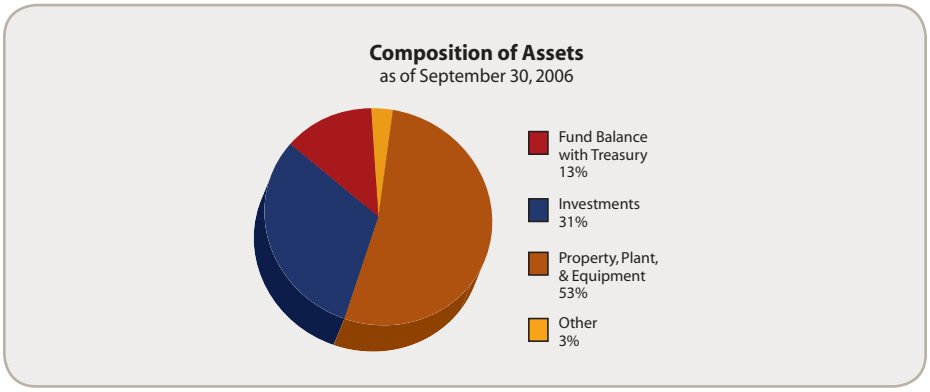
With a net cost of $9.6 billion, the ATO is FAA's largest line of business, comprising 66% of total net costs. ATO's net costs increased in FY 2006 primarily from costs related to the FAA Telecommunications Infrastructure (FTI) project, and a greater number of assets below the capitalization threshold were charged to expense in FY 2006 compared to FY 2005. FTI is a major telecommunications upgrade that provides efficient transmission of voice, data, radar, weather, and other information critical to the operations of FAA at a significant cost savings over time.

The net cost of Aviation Safety represents 7% of FAA's total net costs, while Region and Center Operations and All Other comprise less than 1% of total net costs. The net costs of Region and Center Operations were $269 million less in FY 2006 due primarily to the receipt of reimbursable revenue for Hurricane Katrina relief efforts while the expenses were reported in FY 2005. The net cost of Aviation Safety was relatively unchanged from 2005.

With a net cost of $3.9 billion in FY 2006, which is 27% of FAA's total net costs, Airports is FAA's second largest line of business. Net costs increased $140 million from FY 2005. The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) increased AIP funding by more than $1 billion in FY 2001. Funding levels for Airports programs have continued to increase by $100 million or more each year since then. Airport improvement projects typically take several years to complete, and FAA reports the associated expense as the grant recipient accomplishes the improvement work. Thus, FAA's net Airport costs increased in FY 2006, as the project lifecycle associated with these grants continued.

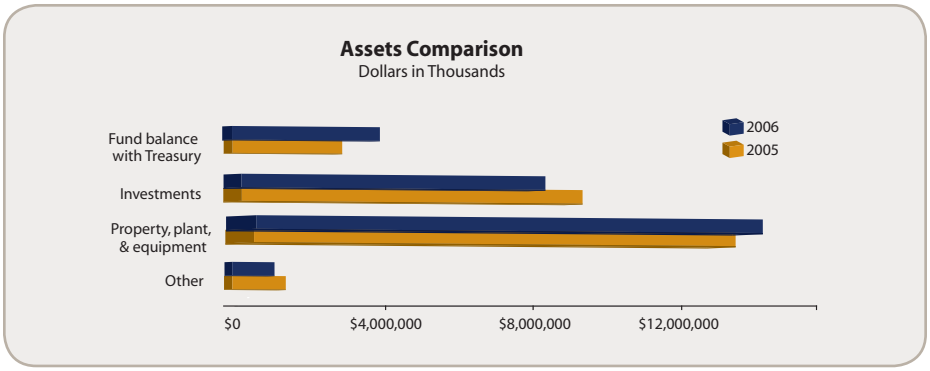
FAA's summarized assets, liabilities, and net position are also shown on page 44.

Total assets were $27.7 billion at the end of FY 2006. 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 on page 40 presents comparisons of major asset balances as of September 30, 2006 and 2005.

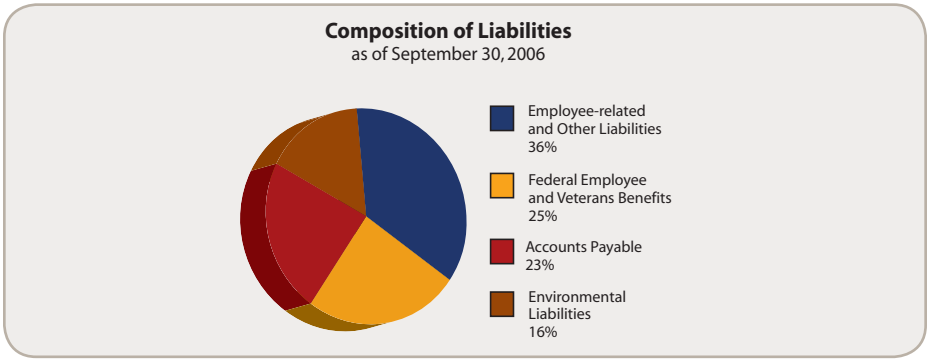
Fund Balance with Treasury represents 13% of FAA's current year assets and consists of funding available through Department of Treasury accounts from which FAA is authorized to make expenditures to pay liabilities. It also includes passenger ticket and other excise taxes deposited to the AATF but not yet invested. Fund balance with Treasury increased $1.1 billion from 2005 to 2006 primarily because FAA had less funds invested in the AATF at year-end than in the prior year.



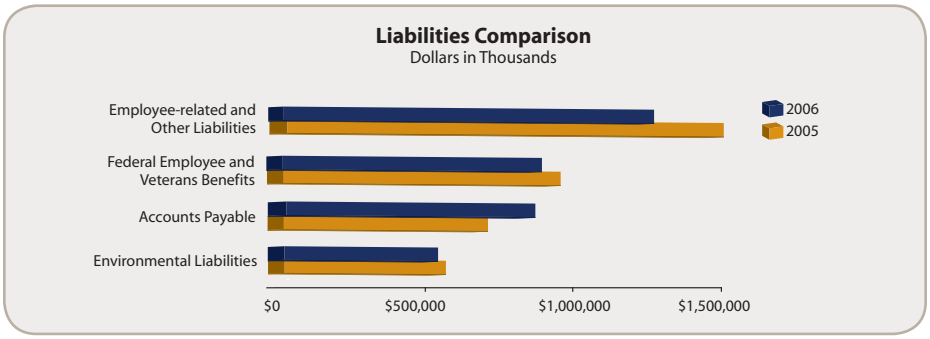
At $8.7 billion, Investments represent 31% of FAA's current year assets and are principally derived from passenger ticket and other excise taxes deposited to the AATF. These amounts are used to finance FAA's operations to the extent authorized by Congress. While tax revenue collections remained consistent between FY 2006 and FY 2005, investments decreased $2.0 billion. The decrease was due to $1.3 billion more in redemptions of AATF investments in FY 2006 than in FY 2005 for operational funding. Additionally, excise tax collections of $700 million received at the end of FY 2006 had not yet been invested and thus are reported as part of Fund Balance with Treasury.

At $14.6 billion, General Property, Plant, and Equipment, net (PP&E) represents 53% of FAA's assets as of September 30, 2006, and primarily comprises construction in progress related to the development of NAS assets and capitalized real and personal property. There was a negligible increase 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 expense during FY 2006.

At the end of FY 2006, FAA reported liabilities of $3.5 billion. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The Composition of Liabilities chart depicts FAA's major categories of liabilities as a percentage of total liabilities.



The Liabilities Comparison chart presents comparisons of major liability balances between FY 2005 and FY 2006. A discussion of the significant fluctuations between the 2 years follows.



At $1.3 billion, Employee-related and Other Liabilities represent 36% of FAA's total liabilities. These liabilities decreased $198.2 million from FY 2005 to FY 2006, mainly as a result of the FY 2006 payment of $166.0 million in accrued unfunded liabilities related to the Hurricane Katrina relief efforts that were accrued at the end of FY 2005.

At $888.1 million, Federal Employee and Veterans Benefits represent 25% of FAA's current year liabilities and consist of FAA's expected liability for death, disability, and medical costs for approved workers' compensation cases, plus a component for incurred but not reported claims. The Department of Labor (DOL) calculates the liability for DOT, and DOT attributes a proportionate amount to FAA based on actual workers' compensation payments to FAA employees over the preceding 4 years.

Environmental Liabilities represent 16% of FAA's total liabilities and were relatively stable at $573.3 million as of September 30, 2006, and $596.5 million a year earlier. Environmental liabilities include a component for remediation of known contaminated sites and the estimated environmental cost to decommission assets presently in service.

FAA's accounts payable represent 23% of liabilities and increased $151.8 million from FY 2005 to FY 2006 mainly due to a reclassification from other liabilities and increases in year end accruals for grants and for amounts owed to suppliers of services. Accounts payable are amounts FAA owes to other entities for unpaid goods and services and estimated amounts incurred but not yet claimed by Airport Improvement Program grant recipients.

FAA's summarized changes in net position are shown on page 44. Net position presents those accounting items that caused the net position of the balance sheet to change from the beginning to the end of a reporting period. Various financing sources increase net position. These financing sources include appropriations received and nonexchange revenue, such as excise taxes and imputed financing from costs absorbed on FAA's behalf by other Federal agencies. The agency's net cost of operations and net transfers to other Federal agencies serve to reduce net position.

FAA's cumulative results of operations had a small increase of $61.9 million because total financing sources slightly exceeded the net cost of operations in FY 2006. While excise tax revenues remained stable from year to year, increases in appropriations used and imputed financing in FY 2006 were largely offset by a like increase in net cost of operations, causing cumulative results of operations to remain stable from FY 2005 to FY 2006. Unexpended appropriations decreased $839.5 million during FY 2006, primarily as a result of increased use of funds appropriated from the General Fund of the U.S. Treasury.

Summary Financial Information

FAA's independent auditor, KPMG LLP, rendered a qualified audit opinion on FAA's FY 2006 financial statements. The DOT Office of Inspector General presented KPMG's audit report to the FAA Administrator on November 14, 2006.

The summary financial information in this highlights report was derived from FAA's audited FY 2006 and FY 2005 financial statements, which were prepared pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994.

Summarized Net Cost of Operations presents the annual cost of operating FAA's lines of business.

Summarized Assets, Liabilities, and Net Position presents the resources available to use (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position).

Summarized Changes in Net Position represents the difference between FAA's financing sources and its net cost of operations.

The audited consolidated financial statements are available in FAA's *FY 2006 Performance and Accountability Report*, which is available from FAA's Office of Financial Management (see contact information on the inside back cover of this publication).

FAA's *FY 2006 Performance and Accountability Report* is also available on the FAA website at *www.faa.gov/about/plans_reports/*.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Administrator, Federal Aviation Administration:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of the U.S. Department of Transportation Federal Aviation Administration (FAA) as of, and for the years ended, September 30, 2006 and 2005 (not presented herein) and have issued our report thereon dated November 3, 2006. That report was qualified for the matter discussed in the following paragraph, and included emphasis paragraphs on a change in method of accounting for and reporting earmarked funds in fiscal year 2006 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds,* and to describe significant estimates made by FAA to record excise tax revenues deposited in the Airport and Airway Trust Fund in fiscal years 2006 and 2005.

During fiscal year 2006, the FAA initiated a detailed review of its Construction in Progress (CIP) financial statement balance. However, the FAA was unable to fully complete its review of CIP, and make all of the adjustments necessary to properly state its CIP balance as of September 30, 2006, prior to the completion of the FAA's *FY 2006 Performance and Accountability Report*. Consequently, the FAA was unable to represent that the CIP account balance totaling $4.7 billion, reported as a component of Property, Plant, and Equipment on the accompanying summarized Assets, Liabilities and Net Position, is fairly stated as of September 30, 2006. In addition, management was unable to provide us with sufficient evidence to support the accuracy and completeness of CIP, or related transactions that may have occurred during fiscal year 2006.

The accompanying summary financial information of the FAA as of, and for the years ended, September 30, 2006 and 2005, as explained in the notes thereto, is not a presentation in conformity with U.S. generally accepted accounting principles. In our opinion, the accompanying summary financial information is fairly stated, in all material respects, in relation to the portion of the financial statements from which it has been derived, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to apply sufficient procedures, and received management's representations, supporting CIP balances and transactions, as discussed in the preceding paragraph.

KPMG LLP

November 3, 2006

Federal Aviation Administration
Summarized Net Cost of Operations
For the Years Ended September 30
(dollars in thousands)

	2006	2005
Lines of Business		
Air Traffic Organization	$ 9,615,233	$ 8,931,418
Airports	3,851,902	3,711,927
Aviation Safety	943,242	1,075,118
Commercial Space Transportation	15,249	14,073
Non Line of Business Programs		
Regions and center operations and other programs	27,585	296,560
Net Cost of Operations	$ 14,453,211	$ 14,029,096

Federal Aviation Administration
Summarized Assets, Liabilities, and Net Position
As of September 30
(dollars in thousands)

	2006	2005
Assets		
Fund balance with Treasury	$ 3,494,227	$ 2,413,102
Investments	8,674,729	10,665,560
Accounts receivable, advances, and other, net	294,427	487,930
Inventory and related property	628,110	626,086
Property, plant, and equipment, net	14,632,035	14,432,466
Total Assets	$ 27,723,528	$ 28,625,144
Liabilities		
Accounts payable	$ 823,028	$ 671,268
Environmental cleanup costs	573,264	596,536
Employee related, legal, and other	1,259,362	1,457,588
Federal employee and veterans benefits	888,082	942,276
Total Liabilities	3,543,736	3,667,668
Net Position		
Unexpended appropriations	429,351	1,268,894
Cumulative results of operations	23,750,441	23,688,582
Total net position	24,179,792	24,957,476
Total Liabilities and Net Position	$ 27,723,528	$ 28,625,144

Federal Aviation Administration
Summarized Changes in Net Position
For the Years Ended September 30
(dollars in thousands)

	2006	2005
Net Position - Beginning of Year	$ 24,957,476	$ 25,086,081
Financing Sources		
Excise taxes and associated revenue	10,701,709	10,700,024
Appropriations received	2,645,000	2,856,927
Net transfers out	(127,718)	(106,549)
Imputed financing and other	456,536	450,089
Total financing sources	13,675,527	13,900,491
Net Cost of Operations	(14,453,211)	(14,029,096)
Net Position - End of Year	$ 24,179,792	$ 24,957,476

Notes to the Summary Financial Information

Reporting Entity. FAA, created in 1958, is a component of the DOT, a cabinet-level agency of the Executive Branch of the United States Government. FAA accomplishes its mission through the four lines of business described on page 9.

Basis of Presentation. The summary financial information is intended to provide users an overview of the financial status and activities of FAA and is derived from and should be read in conjunction with the financial statements contained in FAA's *FY 2006 Performance and Accountability Report*. The summary financial information is not a presentation in accordance with accounting principles generally accepted in the United States of America.

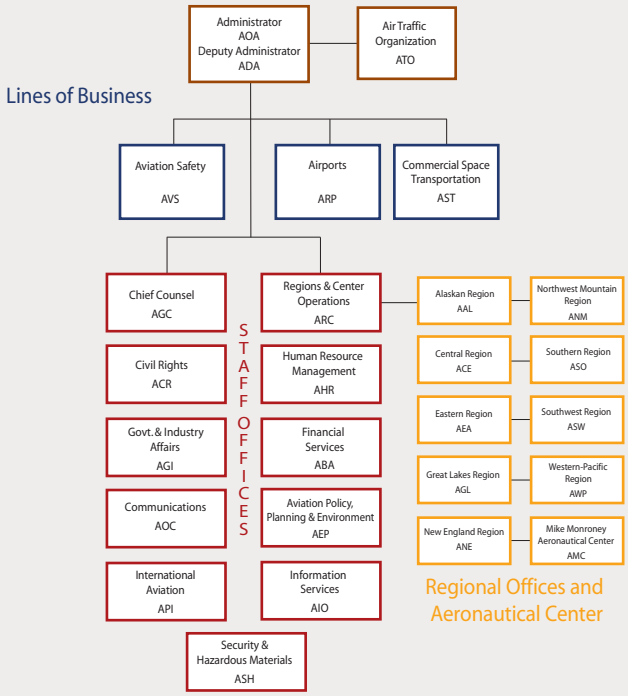
Assets. *Fund balance with Treasury* consists of funding available through Department of Treasury accounts from which FAA is authorized to make expenditures to pay liabilities. Investments consist primarily of Airport and Airway Trust Fund (AATF) excise tax collections, which Congress has not appropriated to FAA and which is invested in U.S. Treasury securities. *Accounts receivable, advances, and other, net* consist primarily of amounts owed to FAA by other Federal agencies and the public, and advance payments to other Federal entities for agency expenses not yet incurred, or for goods and services not yet received. *Property, plant, and equipment, net* consists primarily of equipment and related property that FAA uses to operate the nation's air traffic control system. Repair parts, used to keep the air traffic control system operational, constitute the majority of *Inventory and related property*.

Liabilities. *Accounts payable* represents amounts owed to vendors for goods and services that FAA has received. *Environmental cleanup costs* represents the accrued costs to correct known environmental hazards and decommission existing assets. *Employee related, legal, and other* consists primarily of accrued personnel compensation and legal liabilities considered probable of loss. *Federal employee and veterans benefits* represents the actuarial liability for future benefits payable for death, disability, medical, and miscellaneous costs for FAA employees under the Federal Employees Compensation Act.

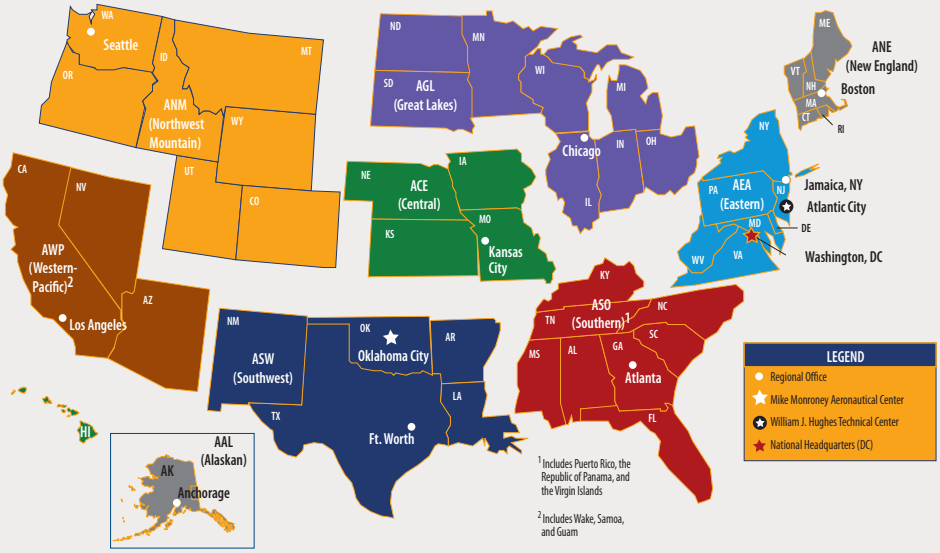
Budgetary Financing Sources. FAA is funded primarily from excise taxes collected by the Internal Revenue Service from airway system users and deposited to the AATF. Annually, Congress enacts annual, multi-year, and no-year appropriations from the AATF and the General Fund of the U.S. Treasury to be used, within statutory limits, to fund FAA's net operating and capital expenditures. *Net transfers out* represent amounts transferred between FAA and other Federal entities. *Imputed financing and other* principally includes FAA costs paid by other Federal entities, such as the Office of Personnel Management, which funds a portion of retirement costs for Federal employees.

Net Position. Net position consists of unexpended appropriations and cumulative results of operations. As of September 30, 2006 and 2005, *Unexpended appropriations* were $429.4 million and $1,268.9 million and *Cumulative results of operations* were $23,750.4 million and $23,688.6 million, respectively. Cumulative results of operations represent certain assets of the FAA, less liabilities that will be funded by future budgetary resources and congressional appropriations.

Federal Aviation Administration Organization



Federal Aviation Administration Regional Map



INTERNET LINKS

Federal Aviation Administration:	***www.faa.gov/***
FAA Offices:	***www.faa.gov/about/office_org/***
FAA Regional Offices and Centers:	***www.faa.gov/about/office_org/headquarters_offices/arc/***
FAA Operational Evolution Plan:	***www.faa.gov/programs/oep/***
FAA Flight Plan:	***www.faa.gov/about/plans_reports/media/flight_plan_2007.pdf***
National Transportation Library:	***http://ntl.bts.gov/***
U.S. Department of Transportation:	***www.dot.gov***

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WE WELCOME YOUR COMMENTS!

Thank you for your interest in FAA's *FY 2006 Performance and Accountability Highlights*. We welcome your comments on how we can make this report more informative for our readers. Please send your comments to

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