U.S. Department of Transportation
Federal Aviation Administration

Fiscal Year 2011

Performance and Accountability Report

Evolving Technology. Advancing Aviation.

Our Mission

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

Our Vision

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

Our Values

Safety is our Passion.
We work so all air and space travelers arrive safely at their destinations.

Excellence is our Promise.
We seek results that embody professionalism, transparency, and accountability.

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

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

Innovation is our Signature.
We foster creativity and vision to provide solutions beyond today's boundaries.

Federal Aviation Administration

FY 2011 Performance and Accountability Report

FAA AT A GLANCE

ESTABLISHED	1958
HEADQUARTERS	800 Independence Avenue, SW Washington, DC 20591 **www.faa.gov**
FY 2011 BUDGET (enacted)	$15.929 billion
TOTAL EMPLOYEES	48,262 employees
HEADQUARTERS	3,932 employees
REGIONAL AND FIELD OFFICES	39,204 employees
TECHNICAL CENTER Atlantic City, NJ	1,518 employees
AERONAUTICAL CENTER Oklahoma City, OK	3,608 employees
FY 2011 PASSENGERS ON U.S. CARRIERS	730.4 million *(estimate)*
FY 2011 TOWER OPERATIONS	50.8 million arrivals and departures *(estimate)*

FOREWORD

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

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

We will continue to raise the bar with our performance and financial accountability and do our part to help the DOT and the Federal Government excel in providing high-quality services and products to the taxpayers we serve.

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

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A Message from the Administrator

J. RANDOLPH BABBITT
ADMINISTRATOR

This year we are celebrating the 75th anniversary of U.S. air traffic control. From the earliest years, the FAA's mission has been to provide the safest, most efficient aerospace system in the world. We proudly continue that mission today.

Civil aviation in the United States has grown dramatically since 1936, when the Bureau of Air Commerce began operation of three air traffic control centers with a total of 15 employees. Last year, despite a challenging economic environment, 713 million passengers flew on U.S. airlines. With a projection of one billion passengers boarding commercial airliners by 2021, we will continue to look for ways to improve the air traffic control system and enhance safety.

This is a time of great innovation in the aviation industry. We are transforming into the Next Generation Air Transportation System, or NextGen. Just as radar revolutionized air traffic control in the 1950s, NextGen is revolutionizing air traffic control now. It is the next milestone in aviation innovation that will bring us greater advances in safety and flexibility, while reducing aviation's environmental footprint.

This year, 2011, we continued to implement new technologies and procedures that will enable us to achieve even greater advances in safety and efficiency moving forward. When people hear NextGen, they may think of the far-off future, but NextGen is happening now. Several operators are taking advantage of NextGen technologies to fly more direct flight paths, reduce taxi times, reduce flight time, save fuel, and lower greenhouse gas emissions. These efforts and others are discussed in more detail on our Web site at **http://www.faa.gov/nextgen/**.

We are working on many fronts to secure the funding that we need to deliver the policies, the procedures, and infrastructure that will take us into the aviation system of tomorrow. If we delay infrastructure investments today, the long-term cost to our Nation—to our passengers and our environment—will far exceed the cost of going forward with the technology now. The FAA needs longer-term funding to better plan improvements that will help us maintain our system as the largest and safest aviation system in the world.

FY 2011 PERFORMANCE HIGHLIGHTS

- **SAFETY.** While we are always working hard to keep flights on time and delays to a minimum, our core mission is safety.

  Reducing the number and severity of runway incursions is one of our top priorities. The number of serious runway incursions dropped by more than 90 percent from fiscal year 2000 through fiscal year 2011. As we move forward, we will enhance safety by installing runway safety technology such as runway status lights and movement detection equipment. This year, for example, we completed our installation of a ground radar safety system that provides a high-resolution computerized display of aircraft and vehicle movement at the airport. The system sees through rain, fog, and darkness to give tower controllers a clear picture to safely move aircraft around the airport. This equipment is now installed at the nation's 35 busiest airports and has contributed to a dramatic improvement in runway safety.

  NextGen technologies in use today are enhancing safety in the Gulf of Mexico. This year operators continued to install NextGen equipment. The GPS-based surveillance system in the Gulf is operating where there is no radar available. It has brought us to new levels of safety and precision and has opened up 250,000 square miles of new, positively controlled airspace. Today, equipped helicopters in the Gulf also are saving about 100 pounds of fuel and shaving approximately five to ten minutes off flight times, thanks to NextGen.

  And in Colorado, NextGen surveillance technologies are enabling controllers to track aircraft flying through mountainous terrain that blocks radar. This enhances safety in potentially hazardous areas.

- **CAPACITY AND NEXTGEN.** NextGen is changing the way our air transportation system operates by reducing congestion, noise, and emissions, and by expanding flexibility, and improving the passenger experience. NextGen provides capabilities that improve arrival and departure capacity for airports and runways in high-demand airspace.

  We made tangible gains toward implementing NextGen capabilities that increase capacity in fiscal year 2011. The results are already evident. For example, the FAA's satellite-based successor to radar is now available in about two-thirds of the United States and all of the ground stations for this new NextGen technology will be installed by 2013.

  For more about NextGen, see the related story on pages 12–13.

- **INTERNATIONAL LEADERSHIP.** The FAA continues to work with its international counterparts to ensure that NextGen concepts, systems, and procedures match those under development elsewhere. The intent is to provide safe, seamless, efficient, and environmentally responsible operations worldwide. The FAA finalized an historic collaborative agreement in 2011 with the European Commission to ensure that our future satellite-based systems—NextGen and the Single European Sky Air Traffic Management Research (SESAR)—are fully harmonized. In addition, we are closely aligning the work we do on NextGen and SESAR with the International Civil Aviation Organization's (ICAO) Block Upgrade Initiative.

  The goal is to identify suites of technology and procedural changes that can be packaged in such a way as to be accessible worldwide for improvements in air traffic safety, efficiency, and decreased environmental impact.

- **ORGANIZATIONAL EXCELLENCE.** Three years ago, the FAA ranked 214 out of 216 in the "Best Places to Work" ranking by Partnership for Public Service. The agency's ranking improved in 2010, moving up to spot number 187 out of 224. Our 2011 results will be available later in November. A factor contributing to FAA's climb in the rankings is our telework initiative. President Obama signed the *Telework Enhancement Act of 2010* on December 9, 2010, providing agencies greater flexibility in managing their workforce. The Act required each agency to notify all employees of telework eligibility status by June 7, 2011. We successfully met the notification deadline. As a result of this notification exercise, the eligibility number increased from approximately 14,000 to more than 20,000. Another factor that has greatly encouraged employee engagement at the FAA is IdeaHub. This DOT-wide online community allows employees to submit, rate, and comment on suggestions for improving programs, processes, and technologies—from proposals for telecommuting to ideas for making the workplace safer—throughout the FAA and DOT. Read about more IdeaHub's successful first year on page 20.
- **ENVIRONMENTAL RESPONSIBILITY.** We are doing all that we can to promote new technologies to reduce fuel burn and fuel costs and to decrease our carbon footprint. Fuel represents on average 40 percent of an airline's total expenses. We need to find alternatives to petroleum, and at the FAA we are doing just that. We are a principal sponsor of the Commercial Aviation Alternative Fuels Initiative, known as CAAFI. And we have been working for five years with industry, academia and other government agencies to find alternatives. In July 2011, CAAFI helped get approval for a renewable fuel made from bio-derived oils. This jet biofuel was approved at a blend of 50 percent with petroleum fuel. This milestone allows us to use biofuel made from any source of renewable oil—such as plants, algae, animal fats, or other sustainable sources.

FUTURE CHALLENGES

- **FAA REAUTHORIZATION.** The FAA has had 22 short-term extensions over the last three and a half years. It is very difficult to run an agency when you are budgeting for weeks, not years. We need the restoration of predictable long-term funding for aviation programs. A multi-year reauthorization would allow us to help airports move forward with important infrastructure improvements that have been put on hold because of uncertainty about long-term funding. Doing so also keeps cost down. Reauthorization is critical to the smooth and efficient operation of our air transportation system.
- **MOVING FORWARD WITH NEXTGEN.** As we continue to implement NextGen, we recognize that it is imperative for both government and industry to participate in defining what NextGen success looks like and how we will know that we have achieved it. To that end, the FAA created a broad-based panel of industry experts—the NextGen Advisory Committee—to collaborate with us on establishing high-level performance measures. The committee helps us navigate options and chart the best course to produce the best results from our investments. The agency's path for future NextGen improvements was updated in March with the annual update to the 2011 NextGen Implementation Plan. The plan can be found on our NextGen Web site: **www.faa.gov/nextgen.**
- **FOUNDATION FOR SUCCESS.** The FAA needs to transform the Nation's aviation system to remain competitive globally. It cannot afford to operate as it does today. An external group presented its findings in 2011 on how we could change to better realize our goals and how we could position the agency for success in light of the fiscal challenges that we face. The group found we have high-caliber, experienced, and motivated employees and leadership. It also identified several opportunities for improvement, and made a number of recommendations to make the FAA more efficient and prepared for the future. As a result of these findings, we are moving forward with plans to implement several internal initiatives. These include improving internally shared services, transforming and upgrading our human resources model, and successful implementation of NextGen. A NextGen office that reports to the Deputy Administrator, in addition to other organizational changes that improve efficiency, will help the FAA meet the needs of our Nation's air transportation system.

ACCOUNTABILITY

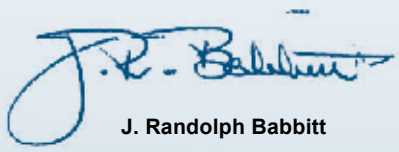
We are proud to have received an unqualified opinion with no material weakness from our auditors on our fiscal year 2011 financial statements. We issued an unqualified statement of assurance, shown on "Management Assurances" on page 36, and can state that the financial and performance data are reliable and complete.

We are committed to ensuring transparency and accountability to the public while achieving our mission. We are working in a difficult budgetary environment. That means we will prioritize even more as we go forward. We will carefully choose and deliver the technologies and programs that will help us improve safety. We will continue to be careful stewards of the tax dollars we receive. This report is a clear indication that we take this responsibility very seriously.

Our FY 2011 Performance and Accountability Report provides a detailed accounting of our performance and financial management to both the flying public and the aviation industry. Our strategic plan—the *Flight Plan*—focuses our performance on the top agency targets that position us to meet the future successfully. We achieved 27 out of the 29 goals listed in the *Flight Plan*.

While we are pleased with our FY 2011 accomplishments, we recognize we must move forward in planning for the future. Beginning in FY 2012, *Destination 2025* will replace the FAA's *Flight Plan 2009-2013*. *Destination 2025* will be the agency's map to the years ahead, including our outcomes or goals, strategies, and performance metrics.

The FAA's capable and dedicated staff and I look forward to working with the President, Congress, industry partners, and stakeholders to reach our destination and to ensure that our system is the safest and most efficient aerospace system in the world.



J. Randolph Babbitt
Administrator
November 9, 2011

Management's Discussion and Analysis

OUR HISTORY

The *Air Mail Act of 1925* not only spurred mail delivery, but facilitated creation of a profitable commercial airline industry. Airline companies soon began scheduled commercial passenger service. Industry leaders responded by urging Congress to require the Federal Government to improve and maintain air safety standards.

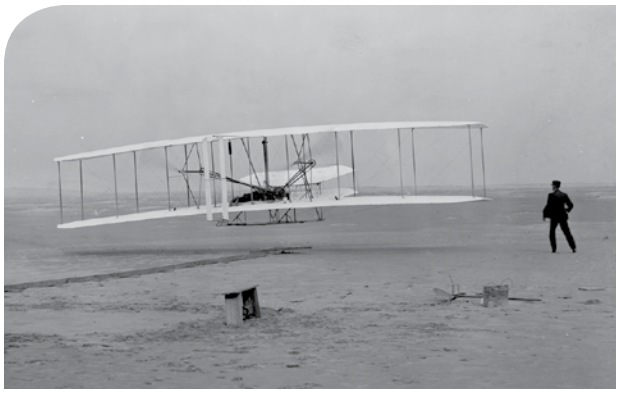
In 1926, President Calvin Coolidge signed the *Air Commerce Act*, initiating Federal oversight of air safety in the United States. By the mid-1930s, the four major domestic airlines that were to dominate commercial travel for most of the twentieth century had begun operations: United, American, Eastern, and Transcontinental and Western Air (TWA).

Secretary of Commerce Herbert Hoover was charged with fostering air commerce, issuing and enforcing air traffic rules, licensing pilots, certifying aircraft, establishing airways, and operating and maintaining aids to air navigation. The U.S. Department of Commerce created the Aeronautics Branch which assumed primary responsibility for aviation oversight. William P. MacCracken, Jr., was its first director.

In 1934, the title of the Department of Commerce's Aeronautics Branch was changed to the Bureau of Air Commerce to reflect the growing importance of aviation to the nation. In one of its first acts, the Bureau encouraged a group of airlines to establish the first air traffic control centers to provide en route air traffic control. In 1936, the Bureau took over these centers.

Early en route controllers tracked the position of planes using maps, blackboards and boat-shaped weights that came to be called "shrimp boats." They used telephones to stay in touch with airline dispatchers, airway radio operators, and airport traffic controllers because they had no direct radio link with aircraft.

President Franklin D. Roosevelt signed the *Civil Aeronautics Act* in 1938, strengthening the Federal focus on aviation safety. The legislation established the independent Civil



Top: The first powered, controlled, sustained flight. Orville Wright at the controls of the machine, and Wilbur Wright running alongside to balance the machine. December 17, 1903. Library of Congress.

Middle: Senorita Lenore Riviero with Antony Jannus in a Rex Smith aeroplane, circa 1911. Harris & Ewing Collection glass negative.

Bottom: Photo taken at Patrick Henry Field in Newport News, Virginia, 1958. Photo by E.G. Moore.

THE 75TH ANNIVERSARY OF AIR TRAFFIC CONTROL

This year marks the 75th anniversary of air traffic control management. http://www.faa.gov/news/press_releases/news_story.cfm?newsId=12903

The Beginnings of Air Traffic Control

In the early twentieth century, pilots followed roads and railway lines. Huge bonfires assisted with landings at night or in poor weather, and there were many accidents. In some cases, early controllers stood on the runways and waved flags to communicate with pilots. In 1923, a transcontinental airways system of beacons on towers was undertaken.

Subsequently radio beacons were introduced and radio-equipped airport traffic control towers began to replace the flagmen. In 1930, the first U.S. radio-equipped control tower opened at Cleveland's Municipal Airport. The growing demand for air travel in the 1930s sharpened the need to manage planes at airports and in the sky. The Bureau of Air Commerce took over operation of the three separate flight traffic control centers—in Cleveland, Newark, New Jersey, and Chicago—on July 6, 1936. The air traffic management system was born.

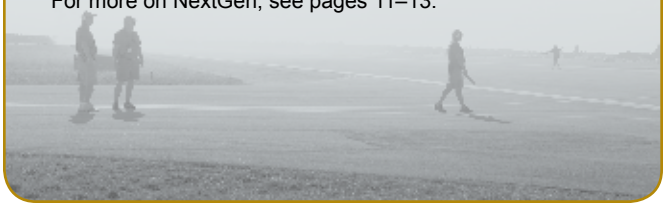
After World War II, controllers began using radar to separate and track aircraft. Air traffic control centers started using the first air route surveillance radar in 1956. In 1957, the air traffic control radar beacon system arrived. Powerful 1500-watt beacons were spaced about 200 miles apart and defined electronic airways.

Air Traffic Control Today

When the Bureau of Air Commerce took over three traffic control centers in 1936, there were 15 controllers. Now controllers number more than 15,000, handling an average of 69,500 flights daily. The three separate centers have become a network of 131 Federal airport traffic control towers, 132 airport traffic control/TRACON towers with terminal area approach control, 27 terminal radar approach control centers, 21 en route traffic control centers, and 4 combined control facilities.

Today air traffic control is poised for its next iteration: satellite-based management, or NextGen.

For more on NextGen, see pages 11–13.



Aeronautics Authority (CAA), with an Air Safety Board that conducted accident investigations and recommended ways of preventing accidents. The legislation also expanded the Government's role in civil aviation by giving CAA the power to regulate airline fares and determine the routes individual carriers served.

In 1940, President Franklin D. Roosevelt split the CAA into two agencies, the Civil Aeronautics Administration, which reverted to the Department of Commerce, and the Civil Aeronautics Board (CAB). The original CAA retained responsibility for air traffic control, airman and aircraft certification, safety enforcement, and airway development. CAB responsibilities included safety rulemaking, accident investigation, and economic regulation of the airlines. Just before the United States entered World War II, the CAA extended its air traffic control system, for purposes of defense, to include operation of airport towers. In the postwar era, air traffic control became a permanent Federal responsibility at most airports.

On May 21, 1958, Senator A.S. "Mike" Monroney introduced a bill to create an independent Federal Aviation Agency to provide for the safe and efficient use of national airspace. On August 23, 1958, President Dwight D. Eisenhower signed the *Federal Aviation Act*, which transferred the Civil Aeronautics Authority's functions to a new independent Federal Aviation Agency responsible for civil aviation safety. On November 1, 1958, retired Air Force General Elwood "Pete" Quesada became the first Administrator. The agency began operations on December 31 of that year.

Concerned about the lack of a coordinated transportation system, President Lyndon Johnson believed a single department was needed to develop and carry out comprehensive transportation policies and programs across all transportation modes. In 1966, Congress authorized the creation of a cabinet department that would combine major Federal transportation responsibilities. This new Department of Transportation (DOT) began full operations on April l, 1967. On that day, the Federal Aviation Agency became the Federal Aviation Administration (FAA), one of several modal organizations within DOT. At the same time, the Civil Aeronautics Board's accident investigation function was transferred to the new National Transportation Safety Board (NTSB).

OUR ORGANIZATION

We fulfill our mission through four lines of business (LOBs) that work collaboratively to create, operate, and maintain the national airspace system (NAS).

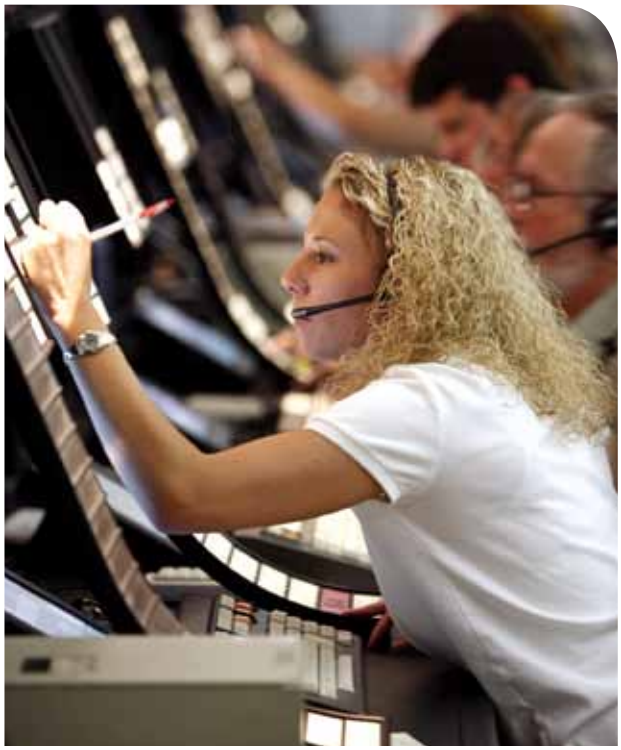
- **Air Traffic Organization (ATO).** Moves air traffic safely and efficiently. The customers of this performance-based organization are commercial, private, and military aviation. Approximately 35,000 ATO employees provide services to these customers.
- **Aviation Safety (AVS).** Oversees the safety of aircraft and the credentials and competency of pilots and mechanics, develops mandatory safety rules, and sets the standards that have helped make air travel one of the safest modes of transportation in history.
- **Airports (ARP).** Provides leadership in planning and developing a safe, secure, and efficient airport system; manages the Airport Improvement Program (AIP), which provides grants to state and local governments; enhances environmental quality related to airport development; develops standards for the design and construction of airport facilities; establishes regulations for the safe operation of commercial service airports; and inspects airports for compliance.
- **Commercial Space Transportation (AST).** Oversees the safety of commercial space transportation activities; regulates the U.S. commercial space transportation industry, including human space flight; and encourages, facilitates, and promotes U.S. commercial space transportation.

These LOBs are supported by other organizations within the agency, including our Aeronautical Center and our Technical Center.

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

Go to **www.faa.gov/about/office_org** for more details about our organization.

The FAA and the aviation community have grown and worked together since the agency's creation in 1958. We at the FAA are proud of our accomplishments in shaping an industry that conquers distance in a new way, lowers transportation costs, and continues to create new opportunities that transform the commercial landscape.



FY 2011 HIGHLIGHTS

The FAA serves the flying public by running a system that:

- ☑ Operates 24 hours a day, 7 days a week, 365 days a year
- ☑ Provides more than 67,000 facilities and pieces of equipment
- ☑ Maintains FAA-operated or -contracted towers at more than 500 airports
- ☑ Inspects and certifies approximately 234,000 aircraft and more than 618,000 pilots
- ☑ Facilitates almost 5,800 takeoffs and landings per hour
- ☑ Transports more than 730 million passengers annually
- ☑ Moves more than 36 billion (preliminary) cargo revenue ton miles of freight a year
- ☑ Safely guides approximately 69,500 flights through the world's preeminent aerospace system every day
- ☑ Supports 10.2 million jobs and contributes $1.3 trillion to the national economy through aviation and related industries.

The FAA provides:

- ☑ A workforce of more than 48,000 professionals to operate and maintain the most complex air traffic control system in the world
- ☑ An annual budget of approximately $15.9 billion.
- ☑ More than 15,000 controllers who manage and ensure ever-increasing levels of safety in the busiest air traffic system in the world
- ☑ More than 6,000 technicians (preliminary) who maintain the equipment in the NAS to extremely high levels of operability
- ☑ Research to improve aviation safety and efficiency.
- ☑ Grants to improve 3,332 eligible public-use airports in the United States
- ☑ Protection of the public, property, and the national security and foreign policy interests of the United States during commercial space launch and reentry activities.

Top: Department of Transportation, Federal Aviation Administration, Orville Wright Building, Washington, D.C. FAA photo.

Middle: Concourse at Detroit Metropolitan Airport. Photo Copyright 2005 Anissa Thompson.

Bottom: Inspectors at the Miami Flight Standards District Offices. FAA photo.

FY 2011 ACCOMPLISHMENTS

FAA accomplishments can best be appreciated in four areas: the Next Generation Air Transportation System (NextGen), safety enhancement measures, commercial space travel, and aviation environmental advances. In addition, our agency's support of White House initiatives has produced many accomplishments.

NextGen Accomplishments

NextGen is a transformative change in the management and operation of how we fly. This comprehensive initiative integrates new and existing technologies, including satellite navigation and advanced digital communications. Airports and aircraft in the U.S. national airspace system (NAS) will be connected to NextGen's advanced infrastructure and will continually share real-time information to improve air transportation's safety, speed, efficiency and environmental impacts. The combined initiatives that make up NextGen will provide a better travel experience. (See related story on pages 12–13 NextGen sidebar.)

We made progress in many NextGen-related areas in FY 2011, including safety management, airport development, environmental management, international harmonization, workforce engagement and training, regulation and policy making, and executing actions in response to recommendations of the RTCA NextGen Mid-Term Implementation Task Force.

ADS-B: The Backbone of NextGen

Automatic Dependent Surveillance-Broadcast, or ADS-B, is a satellite-based air traffic surveillance system that tracks equipped aircraft with more accuracy than radar by providing air traffic controllers and pilots with the real-time location of equipped aircraft. As one of the NextGen transformational programs, ADS-B will enable safer and more efficient use of our airspace.

The FAA has approved the nationwide deployment of ADS-B ground infrastructure, which means that controllers can now use it to separate suitably equipped aircraft. ADS-B is also providing safer and more reliable access to areas previously not covered by radar, such as the Gulf of Mexico and the mountainous terrain around Juneau, Alaska.

In May 2010, the FAA announced the final rule on performance requirements for the kind of tracking equipment that planes will need to have installed to use ADS-B. This gives manufacturers the green light to begin building the appropriate onboard equipment. With these standards laid out and much of the ground infrastructure now in place, we expect ADS-B to be nearly 80 percent deployed by the end of 2013 with full deployment in 2014. In preparation for the nationwide availability, the FAA is working with JetBlue and U.S. Airways to gather ADS-B data using new avionics.

Performance Based Navigation: Adding Flexibility to the NAS

Performance-based navigation (PBN) is a combination of satellite-based navigation routes and procedures that use the Global Positioning System (GPS) to provide precise location information. It eliminates the requirement for a direct link between aircraft navigation and a ground-based navigational aid, enabling better airspace and airport access with flexibility of point-to-point operations. PBN also facilitates more efficient design of airspace and procedures, which collectively result in improved safety, airspace and airport access, capacity, predictability, and operational efficiency, as well as reduced emissions and fuel use.

In Atlanta, arriving planes using PBN procedures have saved hundreds of thousands of gallons of fuel and reduced thousands of tons of carbon dioxide and air pollutants. Similar fuel savings and reductions in emissions have resulted from the use of precise, continuous Optimized Profile Descents (OPD) into Los Angeles and customized airplane descents into San Francisco. New performance-based landing procedures in Miami save 50 gallons of fuel and reduce 1,000 lbs. of carbon emissions per flight.

By flying PBN Required Navigation Performance (RNP) procedures at Seattle-Tacoma International Airport, Alaska Airlines will reduce carbon dioxide by 22 tons per year. That has the same effect as taking 4,100 cars off Seattle streets.

Area Navigation (RNAV) and RNP procedures are in use at many airports. In total, we have published 302 RNAV Routes, 489 RNAV procedures, 329 RNP procedures and 33 OPDs.

Getting the International Community on Board

A harmonized and seamless global air transportation network is necessary for NextGen's success. Getting international partners on board is critical. To ensure a seamless and interoperable global aviation system, the FAA is collaborating with European counterparts. In March of 2011, the FAA and European Union representatives agreed to conduct research that would develop and harmonize NextGen functionalities between the United States and Europe.

NextGen: *A Revolution in Air Travel*

Without dramatic changes, today's aviation system will be incapable of meeting the growth projected for airline traffic in just the next 10 years. In order to increase capacity, the Federal Aviation Administration (FAA) is spearheading ambitious technological innovations collectively called NextGen, the Next Generation Air Transportation System. NextGen will radically advance air traffic control management.

NextGen Technology Transforms Aviation

NextGen will replace ground-based radar with satellite-based tracking, similar to Global Positioning Systems (GPS) in cars. Radar has distance and line-of-sight limitations, which means that it cannot track aircraft in mountainous terrain. Bad weather also poses obstacles. Because radar signals update about every 10 seconds on air traffic controllers' screens, planes must be kept three to five miles apart.

With satellite-based technology, signals are transmitted once every second. Air traffic control will be more precise and continuous. The position of equipped aircraft in the air and on the ground will be known more reliably, and controllers, airline dispatchers and pilots will receive this information in real time. Eventually, planes will be able to fly closer together on more direct routes. They will also be able to take off and land closer together. Airports will be able to use their runways more efficiently and get planes into and out of the airport faster.

More precise take-offs and landings will replace gradual ascents and stair-step descents, reducing flight time and saving fuel. Fuel represents about 40 percent of an airline's total expenses, and it's a cost that is rising. Less fuel also means less carbon emission, thus reducing aviation's environmental footprint.

The Future Is Now— HOV Lanes in the Sky

- Several U.S. airlines are already equipped to take advantage of NextGen technologies, providing more reliability to their customers.
- Southwest Airlines began using precise, GPS-based arrival procedures at a dozen airports this year. That translated into reductions in fuel, carbon emissions and delays. Southwest estimates that it will save $60 million a year in fuel once all of its aircraft are equipped to use these procedures.
- Alaska Airlines cut its accident rate nearly in half by using satellite-based navigation technology in hazardous mountainous terrain and difficult weather conditions. The airline estimates that it would have had to cancel 729 flights into Juneau alone in 2010, at an estimated loss of $7.5 million, were it not for the new NextGen approaches. Operating those flights meant that passengers were able to get to their destinations on time.

JetBlue is partnering with FAA in adopting another NextGen technology. The airline will equip up to 35 of its current fleet with Automatic Dependent Surveillance-Broadcast (ADS-B) technology, enabling JetBlue to take advantage of new over-the-water routes from Boston and New York to Florida and the Caribbean. FAA Administrator J. Randolph Babbitt compares these routes that bypass congestion to "HOV lanes in the sky."

In this partnership, JetBlue passengers will benefit from earlier, more reliable arrival times. The FAA will benefit by studying data from real-world use of the ADS-B technology to see how and where it saves time, distance, and fuel, enabling it to make the case for investment more compellingly to other airline carriers.

NextGen: An Engine for U.S. Prosperity and Competitiveness

"Aviation is an economic engine for our country. We move passengers. We move freight. And we ensure that our economy remains competitive and prosperous."

NextGen will make the FAA even "more efficient with our assets."

— FAA Administrator
J. Randolph Babbitt

http://www.faa.gov/news/testimony/news_story.cfm?newsId=12640
http://www.faa.gov/news/speeches/news_story.cfm?newsId=12441

The FAA estimates one billion passengers will take to the sky annually by 2021, up from the current 737 million. To meet this increased demand for air travel, NextGen will offer the precision of satellite-based technology, enabling more planes to fly more safely in crowded skies.

- **NextGen expands air traffic capacity.**
  The upcoming switch to NextGen satellite-based technology will enable JetBlue to fly more direct, less congested air routes, maximizing use of the national air space.
- **NextGen is safer.**
  In Alaska, the accident rate has been cut nearly in half by using NextGen satellite-based navigation technology in hazardous mountain terrain and dangerous weather conditions.
- **NextGen saves fuel and money.**
  Southwest Airlines uses more direct and fuel-saving GPS-based landing procedures at some airports. Once its entire fleet is equipped to use these procedures, Southwest forecasts savings of $60 million a year.
- **NextGen reduces aviation's environmental footprint.**
  Seattle-Tacoma International Airport is home to the "Greener Skies over Seattle" initiative, which uses more direct, satellite-guided descents to deliver reduced emissions and less fuel burn. These descents also reduce noise over populated areas, because planes remain over Puget Sound and away from neighborhoods during most of their final approach.
- **NextGen has a global impact.**
  The increasingly global face of aviation requires that airplanes be able to use the same avionics to get similar benefits around the world. The FAA is working with its global counterparts to make sure that happens. Over the next few years, work under a U.S.-European Union memorandum of cooperation continues to ensure interoperability between NextGen and SESAR, its European counterpart.

  The FAA is continuing to participate in flight trials to prove a variety of NextGen concepts through the Atlantic Interoperability Initiative to Reduce Emissions and the Asia and Pacific Initiative to Reduce Emissions while continuing to work with developing aviation nations such as China, Japan, and India.

Other Major Accomplishments

Raising the Bar on Safety

Air Traffic Controller Fatigue. In 2011, the FAA announced a Call to Action on air traffic controller fatigue. The goal was to reinforce the need for all air traffic personnel to adhere to the highest professional standards. The effort included development of a fatigue education program to teach controllers the risks of fatigue and how to avoid it. The FAA announced changes to air traffic controller scheduling practices. Controllers now have more time for rest between shifts. In addition, an independent blue ribbon panel was assembled to review all aspects of a controller's training experience at the FAA including the hiring process, initial training, placement and career development. We are reviewing the panel's recommendations and developing a plan to address them. (For more information, see the Aviation Safety sidebar on this page.)

Safety Management. In another safety measure, we implemented a safety management system (SMS) within the FAA. SMS gives operators a set of business processes and management tools that allows them to examine data

AVIATION SAFETY

Safety has always been central to the FAA's vision, mission, and values. This year the culture of safety got even stronger.

Operational Error

Guarding against "operational error" is a key pillar of aviation safety. The term refers to a situation in which an air traffic controller fails to maintain a safe distance between two or more aircraft, in the air or on the ground, or a safe distance from terrain, obstructions, and certain airspace not designated for routine air travel.

Testifying before Congress on May 24, 2011, FAA Administrator J. Randolph Babbitt expressed concern about FY 2010's increase in operational errors. But he attributed the increase to a relatively new reporting system known as the Air Traffic Safety Action Program (ATSAP). http://www.faa.gov/news/testimony/news_story.cfm?newsId=12731 The program aims to make flight safer by encouraging air traffic controllers to report operational errors voluntarily, without fear of punishment.

Also contributing to this new approach toward mistakes is the roll-out of software that automatically detects operational errors and reports them directly to FAA's quality assurance program for analysis.

Air Traffic Control

FAA's FY 2011 Call to Action program focused on aviation safety related to air traffic controller fatigue. This was in response to incidents in which a few controllers working late night shifts at different airports were found to have fallen asleep on the job.

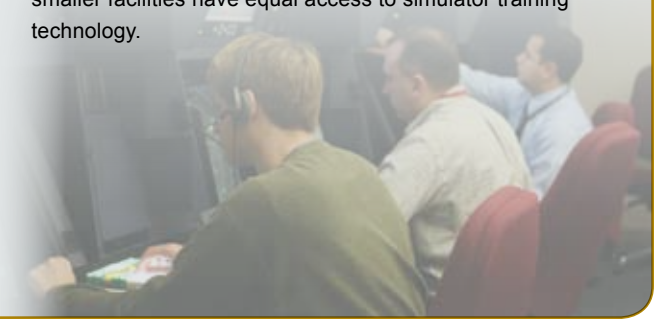
Administrator Babbitt, along with union officials from the National Air Traffic Controllers Association (NATCA), visited 30 air traffic facilities, calling upon all air traffic personnel to adhere to the highest professional standards of safety and professionalism.

At the same time, FAA took these steps to combat controller fatigue:

- Prohibited controllers from voluntarily working grueling shifts to accrue long weekends.
- Increased mandatory time between shifts from eight hours off to a new minimum of nine hours, allowing for more rest time.
- Added an additional controller to the midnight shift at the 27 towers nationwide that had only one controller during those hours.

Furthermore, we are working on a plan to address the 50 recommendations we received from a blue ribbon panel that was assembled with the goal of improving air traffic controller training. These recommendations include:

- Conduct a more stringent evaluation of the curriculum at collegiate air traffic control programs.
- Standardize an "advanced" training course that controllers would be required to take before arriving at their permanent field facility.
- Establish a yearly refresher course for senior controllers serving as field instructors.
- Create mobile simulator labs to ensure that controllers in smaller facilities have equal access to simulator training technology.



from everyday operations in order to isolate trends that may be precursors to incidents or accidents, and to develop and carry out appropriate risk mitigation strategies. SMS is becoming an industry standard worldwide. This fiscal year, in a continuing effort to take the U.S. aviation system to the next level of safety, FAA required SMS at all large hub airports and proposed requiring SMS for most commercial airlines.

Runway Safety. In FY 2011, we continued improving runway safety areas (RSAs). RSAs are surfaces surrounding runways that reduce the risk of damage to airplanes in the event of an undershoot, overshoot, or excursion from the runway. Thirty-four RSAs were improved in 2011. At the end of FY 2011, 48 percent of the total RSAs requiring improvement were completed.

Weather Cameras. In an ongoing effort to improve aviation safety in Alaska, we activated our 150th weather camera, in the historic village of Talkeetna. Weather cameras view sky conditions around airports, air routes, and mountain passes, helping pilots make better choices about when and where it's safe to fly. Camera images are updated every 10 minutes and are available to the public at **http://avcams.faa.gov**. The FAA plans to install weather cameras at an additional 24 sites in Alaska by year's end.

Commercial Space Transportation Safety

Since 1989, our Office of Commercial Space Transportation (AST) has licensed 205 commercial space launches and one reentry without any loss of life, serious injuries, or significant property damage to the general public. This record has been maintained while experiencing significant growth in the number of space launch operators and spaceports.

In FY 2011, our License Evaluation teams administered 11 active launch licenses for launches of the Zenit, Pegasus, Taurus, Atlas V, Delta IV, Delta II, and Falcon 9 vehicles. Eight licenses for launch site operations and two license amendments were submitted for significant launch site license modifications. Last year, FAA also issued two more congressionally-created Safety Approvals (to companies Zero G Corp and SpaceTEC) for their unique commercial training facilities and technician education programs.

In addition to our regulatory responsibilities, we are also congressionally directed to encourage, facilitate and promote U.S. commercial space transportation industry. In FY 2011, we fulfilled this requirement with the issuance of three Space Transportation Infrastructure Matching

THE NEW ENVIRONMENT OF COMMERCIAL SPACE TRANSPORTATION

FAA and Human Space Flight

The FAA is currently being faced with two challenges: the commercial launch of crewmembers to and from the International Space Station (due to NASAs retirement of the Space Shuttle) and suborbital human spaceflight (space tourism).

The publication of the new National Space Policy emphasized an increased reliance on the commercial space industry in America's overall space strategy. The FAA provides regulatory oversight for commercial space transportation activities. As such, we actively and continuously participate in joint working groups with the U.S. Air Force to maintain common launch safety requirements at Air Force launch sites.

The FAA's activities address national objectives for security of space-based assets and increased technical and economic competitiveness in the aerospace industry.

Private-Sector Space Travel

The FAA has the responsibility both to nurture and regulate for safety the nascent world of commercial space travel. The FAA licenses U.S. commercial space launches and reentries, as well as the operation of non-governmental launch and reentry sites, called "spaceports."

The launches involve not only trips to the International Space Station, but also the development and operation of reusable launch vehicles, for both science missions and space tourism. http://www.faa.gov/news/speeches/news_story.cfm?newsId=12705

- Members of the scientific community will be able to use space science missions for experiments to test hypotheses and materials.
- Several hundred would-be space tourists have already paid Virgin Galactic tens of millions of dollars to reserve seats on suborbital commercial space flights.

In FY 2011, we achieved a major milestone toward these goals: a commercial spacecraft was launched into space *and* returned safely to earth.

AVIATION GOES GREEN

NextGen encompasses a variety of innovative environmental and energy efficiency efforts. NextGen's Continuous Lower Energy, Emissions and Noise (CLEEN) program accelerates the development and certification of promising new engine and airframe technologies and sustainable alternative fuels. These will improve air quality and lower net carbon dioxide emissions, moving the industry closer to the goal of carbon-neutral aviation growth by 2020.

CAAFI's Success with New "Drop-in" Fuels

The FAA is a principal sponsor of the Commercial Aviation Alternative Fuels Initiative (CAAFI). In 2009, the group helped secure approval for an alternative "drop-in" fuel that can be made out of coal, natural gas, or "biomass" (garbage, wood, waste, landfill gases, or alcohol fuels). "Drop-in" means that there is no need to change the engines or equipment already in use.

The alternative fuel was approved for use at a 50 percent blend. This is the first time in 20 years that a new standard for jet fuel has been certified. http://www.faa.gov/news/speeches/news_story.cfm?newsId=12537

In July 2011, renewable, "drop-in," commercial biofuel made from plants, algae, or other sustainable sources, was approved for use at a 50 percent blend. This is the second alternative fuel approval. Work is already underway to advance approval of additional sustainable "drop-in" alternative fuels and fuel blends made from alcohols, biomass, and sugars.

Next generation biofuels may have benefits over first generation biofuels from the standpoint of cost, environmental sustainability, and overall scale of production.

Greener Skies Over Seattle

Seattle Tacoma International Airport (SEATAC) is home to FAA's environmentally friendly "Greener Skies over Seattle" initiative, which employs NextGen satellite-based flight guidance technology. The technology involves Required Navigation Performance (RNP) approaches to minimize environmental impacts, delivering reduced emissions and less fuel burn.

FAA Administrator J. Randolph Babbitt estimates that for 2011, "Airlines using GPS-based arrival and approach procedures at SeaTac will save a total of about $9 million per year at today's fuel prices." http://www.faa.gov/news/speeches/news_story.cfm?newsId=12723

For more on NextGen, see the spread on pages 12–13.

Grants: to the Atlantic Regional Spaceport, the East Kern Airport District, and the New Mexico Spaceport Authority.

Additionally, we demonstrated our commitment to industry-based research and design as well as Science, Technology, Engineering and Math (STEM) education through continuance of funding for the Center of Excellence for Commercial Space Transportation (COE-CST). The COE-CST began operation in FY 2010 with New Mexico State University as the Administrative Lead and Stanford University as the Technical Lead. The center is a collaborative partnership of academia, industry, and Government, developed for the purpose of creating a world-class consortium that will address current and future challenges for commercial space transportation.

Further supporting the industry, AST published an Industry Developments and Concepts Report, a comprehensive Commercial Space Transportation Forecast (Low Earth Orbit, Non-Geosynchronous, and Geosynchronous Launches), and quarterly launch reports to provide information about significant changes in commercial space transportation.

You can read more about our office of Commercial Space Transportation on our Web site at **http://www.faa.gov/about/office_org/headquarters_offices/ast/**.

FAA's *Aerospace Forecast for Fiscal Years 2011-2031* is also on our Web site at **http://www.faa.gov/about/office_org/headquarters_offices/apl/aviation_forecasts/aerospace_forecasts/2011-2031/media/Commercial%20Space%20Transportation.pdf.**

Going Green

FY 2011 saw publication of an innovative fuel standard. The standard will open the door for production of commercial aviation bio-fuels. These bio-fuels, although new, have the great advantage that they can be used without requiring changes in current aircraft systems or airport fueling infrastructure. In collaboration with the Commercial Aviation Alternative Fuel Initiative (CAAFI), we worked diligently to develop the new fuel standard through research and testing. This is a key milestone in helping us meet the Obama Administration's environment and energy goals for the Nation. And it is directly responsive to

the recommendation of the Future of Aviation Advisory Committee to promote and display U.S. aviation as a first user of sustainable alternative fuels.

In October 2010, in an earlier step toward going green, the FAA announced its collaboration with the U.S. Department of Agriculture (USDA) to develop alternatives to jet fuel. Working with the USDA, we are assessing the availability of different kinds of feedstocks that could be processed by bio-refineries to produce jet fuels. The development and deployment of alternative fuels is critical to achieving carbon-neutral aviation growth by 2020. Leveraging the expertise and resources of the USDA, this collaboration enables aviation to play a key role in expanding renewable fuel while improving the environment.

Additionally, we have launched the Aviation Climate Change Research Initiative to increase understanding of aviation's contributions to climate change. The initiative will make it possible to analyze and compare the values and tradeoffs of various non-carbon-dioxide aircraft emissions, facilitating decision-making between options.

In August of this year, FAA certified the Boeing 787 Dreamliner. This aircraft incorporated several new technologies, including composite materials, to reduce fuel burn 20 percent over existing aircraft in its class. The 787 is also much quieter due to technology innovations developed in partnership with NASA in the 2000s.

In a similar partnership approach, the FAA established the Continuous Lower Energy, Emissions and Noise (CLEEN) program in 2010 to further reduce noise, emissions and fuel burn by accelerating technology development. The goal of CLEEN is to demonstrate these green technologies by 2014, with an expected entry into service between 2015 and 2018. CLEEN has already successfully demonstrated emissions technologies that meet challenging goals and are on track to be commercialized by 2015.

Performance and Budget Integration

Another major FAA accomplishment is the integration of our performance and our budget. Two critical areas as we integrate performance and budget are:

- Deciding and reporting annually, but thinking and planning long-term

- Defining "programs" clearly enough so that plans, budgets, and statements of net costs can be aligned.

Each FAA organization creates an annual business plan. These business plans integrate the financial components of the budget with performance goals. Budgets are built on business plans that advance the goals of the *Flight Plan*, using budget year business plans that contain estimated costs for thousands of activities. These activities are accumulated to calculate estimated costs associated with FAA and DOT goals.

Credible performance measures enable effective budgeting and performance management. Metrics assist in clearly defining expectations, identifying trends, and helping the agency present mission-driven budget requests. Measures are the cornerstone of effective performance management and effective performance budgets. The integration of performance and budget strengthens resource allocation and assists us in managing our organization more effectively.

Accomplishments That Support White House Initiatives

On September 2010, the President issued the Accountable Government Initiative, which focuses on improving outcomes and transparency by strengthening each aspect of the performance improvement process— from leadership and management to measurement and analysis. We are following Office of Management and Budget (OMB) guidance during the transition from a planning and reporting approach focused primarily on the supply of performance information to three performance improvement strategies that place greater emphasis on:

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

We continue to find ways to operate more effectively and more efficiently to meet the many national challenges such as stimulating the economy and rebuilding infrastructure. We also continue to support the *American Recovery and Reinvestment Act*, Open Government, environmental sustainability, strategic management of human capital, and reduction of improper payments.

Performance Improvement

Government Performance Results Modernization Act of 2010. Congress passed and the President signed the *Government Performance Results Modernization Act* into law on January 4, 2011. This Act updates the nearly 20 year-old *Government Performance and Results Act* (GPRA). The original law required agencies to create multiyear strategic plans, annual performance plans, and annual performance reports (for example, this Performance and Accountability Report or PAR). The new legislation creates a new government-wide planning and reporting framework with a defined structure. The plans, programs, and performance information are more clearly linked.

The *GPRA Modernization Act* requires quarterly progress reviews and encompasses the Priority Goal effort. You can find the entire *GPRA Modernization Act* on the U.S. Government Printing Office's Web site at **http://www.gpo.gov/fdsys/pkg/BILLS-111hr2142enr/pdf/BILLS-111hr2142enr.pdf**.

Our Priority Goal for FY 2010 and FY 2011 is *Limit Aviation Risk on Runways*. The goal aims to strengthen runway safety and inform the American public about the quality of services that we at FAA provide in this area in return for their tax dollars. (More information about this Priority Goal is available at **http://goals.performance.gov/goal_detail/dot/108**.) We report our progress on this goal every quarter for each of the indicators for which data are available. (General information about Priority Goals can be found at **www.performance.gov**.)

Management Challenges. Our support for the *GPRA Modernization Act* is also evident in our commitment at FAA to meeting our top management challenges. The DOT's Office of Inspector General (OIG) identified nine FY 2011 top management challenges. The FAA was identified as a contributing operating administration in five of the nine:

- Ensuring Transparency and Accountability in the Department's Recovery Act Programs
- Maintaining Momentum in Addressing Human Factors and Improving Safety Oversight of the Aviation Industry
- Advancing the Next Generation Air Transportation System While Ensuring the Safe and Efficient Operation of the National Airspace System

- Implementing Process to Improve the Department's Acquisitions and Contract Management
- Improving the Department's Cyber Security

We continue to make strides toward meeting these challenges. More information about our management challenges and the action plans that address them is available at **http://www.faa.gov/about/plans_reports**.

American Recovery and Reinvestment Act

On February 13, 2009, Congress passed the *American Recovery and Reinvestment Act* (ARRA), a direct response to the economic crisis. The President signed ARRA into law four days later. The ARRA has three immediate goals:

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

The FAA received $1.3 billion in ARRA funds. These funds were used for both airport improvement projects and air traffic control facility and system upgrades in communities nationwide. In addition, ARRA projects immediately benefitted local economies by supporting thousands of jobs. Because of low construction bids for projects, even more ARRA dollars were available for additional facilities, equipment and airport projects.

Among the projects completed in FY 2011 with ARRA funds were terminal improvements at North Carolina's Asheville Regional Airport and an aircraft rescue and firefighting building at the St. Louis Downtown Airport in East St. Louis, Illinois. To date, 100 percent of FAA's ARRA projects have been completed. To learn more about the ARRA and to track how and where funds were spent, visit **www.recovery.gov** and click on "Where is the Money Going?" Select "Agency Reported Data" to view the Department of Transportation's page.

Telework

On December 9, 2010, President Obama signed the *Telework Enhancement Act of 2010* into law to improve telework across the Federal Government. The Act is a key factor in our ability to achieve greater flexibility in managing our workforce.

A well-established and implemented telework program will provide us with a valuable tool to meet our mission objectives while helping our employees enhance work-life effectiveness.

Across the Federal Government, telework:

- Is a useful strategy to improve Continuity of Operations to help ensure that essential Federal functions continue during emergency situations.
- Reduces traffic congestion and transit costs.
- Enhances work-life balance. Telework allows employees to better manage their work and family obligations, resulting in higher productivity and happier employees.

At the FAA, 20,235 employees are eligible for telework, an increase from 14,262 in January 2011.

For more information about the government-wide telework initiative, please go to **www.telework.gov**.

Sustainability

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

In FY 2011, the Greening Initiative:

- Developed an FAA Sustainability Policy Statement
- Created the FY 2011 Strategic Sustainability Performance Plan to guide FAA achievement of EO 13514 goals and targets
- Completed the FY 2010 Greenhouse Gas Sustainability Data Report to report FAA progress to DOT
- Participated in quarterly Regulatory Reviews with the Deputy Secretary of Transportation to assess FAA progress toward achieving sustainability goals

WHAT DID THE FIRST YEAR LOOK LIKE FOR IDEAHUB?

Three hundred sixty-five days and 2,500 ideas: the future looks bright for innovation at FAA.

IdeaHub is a DOT-wide online community that enables employees to "build" ideas in a collaborative environment.

IdeaHub went live on August 3, 2010. Since then, our employees have contributed more than 2,500 ideas, 10,000 comments, and 47,000 ratings. It's been a busy year! In case you missed anything, we've compiled a quick overview of the highlights below.

Impact

A lot of great ideas passed through FAA IdeaHub in its first year. Did you know that FAA has already accepted or implemented ideas about renaming parking aprons and taxiways to improve runway safety, going paperless at the FAA Academy, offering tuition assistance to employees, establishing a FAA presence on Facebook and Twitter, dressing business casual during the summer, and optimizing the employee Web site for smart phones?

To help employees remain up-to-date concerning the latest IdeaHub developments, FAA developed "HubBub," a news and information Web site specific to IdeaHub, and "Ideas in Flight," a Web-based list of ideas that have been accepted, implemented, and myth busted.

Feedback

IdeaHub held an agency-wide town hall-style event on August 3, 2011 to celebrate its first anniversary. Employees from around the nation gathered to participate via video teleconference and online streaming video. Participants shared thoughts, offered stories, discussed challenges, and—perhaps most importantly—looked toward the future. The first year was great, but we're not done yet!

Curious what FAA employees said about IdeaHub during its first year? Check out some of the quotes we've gathered below.

"Before IdeaHub, a good idea might have been overlooked because it wasn't topical or flashy. Now, with IdeaHub, an employee can submit an idea and people can find it and decide for themselves whether it's good or not. The system is more open, and it's great to know that people are reading these ideas and giving them the attention they deserve."

"This may sound funny, but until now, there has never been a place to send your ideas. I was just waiting for it."

"IdeaHub has opened lines of communication that were not there before. Not just within the FAA but the entire DOT! We have all been given the opportunity to make our work place better—take advantage of it!"

- Continued identifying sustainability initiatives across the agency to evaluate their potential benefits and assess their impact on our environmental footprint
- Deployed the Greening Initiative employee Web site to enhance employee awareness and provide opportunities for involvement.

This work will guide the development and implementation of an updated FY 2012 Strategic Sustainability Performance Plan, which will focus on improving our sustainability performance.

Strategic Management of Human Capital

Hiring Reform. In May 2010, President Obama instructed Federal agencies to improve their recruitment and hiring processes. In support of the Office of Personnel Management's (OPM) initiative, we developed and launched the FAA New Hire Survey. The survey provides feedback from new hires from the time of job offer and acceptance through the employee's first month on the job. For FY 2011, three-quarters of new hires reported positive experiences overall with FAA's recruitment, hiring, and onboarding processes, including high levels of satisfaction with key aspects of the job through their first month.

We will continue to focus on key areas of the hiring process including improving the timeliness and quality of hires and increasing the involvement of hiring managers throughout the hiring process.

Improving Employee Satisfaction and Wellness. President Obama's FY 2011 budget request included plans to survey larger samples of Federal workers more frequently regarding job satisfaction, and to assess the health and well-being of Federal employees.

The 2010 Best Place to Work in the Federal Government rankings indicated that 70 percent of FAA employees were clearly satisfied with their jobs. Knowing that these criteria are important for employee engagement, which ultimately drives organizational performance, we have made addressing workplace satisfaction a priority. In FY 2009 we ranked just 214 out of 216. In FY 2010 we ranked 187 out of 224. The FAA's FY 2011

Federal workplace rankings will not be available until after this report is published.

Our Administrator has set a goal that the FAA would be rated in the top 25 percent of places to work in the Federal Government by employees. Continued efforts to implement the FAA Employee Engagement Action Plan will contribute to this goal. Initiatives include:

- Creativity and Innovation—We will build upon the successful launch of IdeaHub and act on employee ideas where feasible. Read more about IdeaHub on page 20.
- Agency-wide Onboarding—We are implementing an exciting set of initiatives to welcome new employees to the FAA.
- Work/Life Programs—We aim to improve agency work-life programs such as the telework policy. We will make employees more aware of existing programs and encourage their use throughout the agency.
- Leadership Development—As we move forward with NextGen implementation, we will continue our efforts to improve training of managers to better equip them with the skills necessary to lead and motivate our workforce.

Improper Payments Elimination and Recovery Act of 2010 (IPERA)

The *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) requires federal agencies to annually report information on improper payments to the President and Congress. The purpose of these laws is to improve agency efforts to reduce and recover improper payments. Specifically, IPERA requires that agencies identify and estimate improper payments, conduct payment recovery audits, reuse recovered improper payments, and complete list of compliance actions per the law.

FAA's FY 2011 IPERA review did not identify any programs or activities at risk for "significant erroneous payments" in accordance with the OMB's criteria (i.e., programs with erroneous payments exceeding both $10 million and 2.5 percent of program payments).

PERFORMANCE HIGHLIGHTS

Although we take pride in our accomplishments to date on various fronts, we remain vigilant in scrutinizing our performance.

At the FAA, we are charged with promoting the safety and efficiency of the Nation's aviation system. We maintain the system's integrity and reliability through our broad authority to enforce safety regulations and conduct oversight of the civil aviation industry. Our strategic plan, annual business plans, human capital plans, program evaluations, and the annual PAR create a recurring cycle of planning, program execution, measurement, verification, and reporting. We have created a strong link between resources and performance that focuses us on accomplishing defined priorities in the context of their costs.

Managing Performance

We manage organizational performance by using a four-step process based on best practices borrowed from several private and public sector organizations. Each year we improve on this strategy through changes and technology enhancements that support the process.

Set Goals. The first step in the performance management process includes consulting with management, employees, and stakeholders to identify areas for improvement. These areas include near-term priorities and long-standing management challenges. Goals, performance measures, targets, and initiatives are laid out in the FY *2009–FY 2013 Flight Plan*.

Plan, Work and Budget. The second step in overseeing our performance focuses on the critical activities and resources required to achieve our goals. Our organizations create annual business plans that include costs for individual work activities. Activities are rolled up to create a performance-based budget that links resource requirements to the *Flight Plan* and the DOT Strategic Plan.

Our complete FY 2011 Congressional Justification and Budget in Brief are available at **www.faa.gov/about/budget**. The *Flight Plan* and FY 2011 business plans for all FAA organizations are available at **http://www.faa.gov/about/plans_reports/**.

Monitor Work. This third step occurs during the various performance management activities in which our executives and employees participate each month. In FY 2011, the Strategy, Performance and Budget Committee was formed. The Performance Subcommittee meets monthly to review goals and related performance targets to identify areas for management intervention. These sessions also result in decisions about resource allocation to support priorities. Managers and employees review monthly status reports at the initiative and activity levels and make adjustments as needed.

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

Performance measures and targets support our mission to provide citizens with a safe, secure, and efficient global aviation system. The table on page 24 summarizes how well we are doing year-to-year in achieving our performance goals. As the table indicates, we have expanded our strategic focus over the past seven years. As our strategic management processes continue to mature and the focus becomes sharper, the number and mix of performance targets will shift. This plan is reviewed on a yearly basis to ensure that we are on track to meet future challenges so that aviation will remain an engine of economic growth.

In our first annual PAR in FY 2002, we listed 10 performance goals in the strategic areas of safety, system efficiency, and organizational excellence. In 2003, we refined our strategic plan and launched the first *Flight Plan* (FY 2004–2008). Like all of our *Flight Plans*, it provided the framework to match resources with initiatives for long-term change. It highlighted four ambitious strategic goals: 1) Increased Safety, 2) Greater Capacity, 3) International Leadership, and 4) Organizational Excellence. Our *FY 2009–2013 Flight Plan*, published in celebration of the agency's 50th anniversary, carried over these goals.

In FY 2011—the eighth year of the *Flight Plan's* implementation—we have 29 performance measures and targets that focus on efforts to enhance aviation safety, increase system capacity, provide international leadership, and ensure organizational success.

Increased Safety. Safety is not only a top priority; it is an economic necessity. People will fly only if they feel safe. They must trust the system, and that trust must be earned.

In FY 2011, we met six of eight safety goals, missing our targets for General Aviation Fatal Accident Rate, and System Risk Event Rate. For a more complete discussion of all safety measures and performance results for FY 2011, as well as next steps, see page 40.

Greater Capacity. Capacity is the backbone of air travel. We aim to increase capacity in an environmentally sound manner. In FY 2011, we met six of six capacity goals and, for the sixth year, exceeded the target for limiting aviation noise exposure. For a more complete discussion of all capacity measures and performance results for FY 2011, as well as next steps, see page 52.

International Leadership. Our goal is to make the international aviation system as safe and efficient as the one enjoyed in the United States. In FY 2011, we met four of our four international leadership goals. For a complete discussion of all international leadership measures and performance results for FY 2011, as well as next steps, see page 60.

Organizational Excellence. At the FAA, we regard employees as our most valuable resource. We operate the largest and safest aerospace system in the world. To do this efficiently, we must continually provide stronger leadership, a better-trained and safer workforce, enhanced cost-control measures, and improved decision-making. In FY 2011, we met eleven of eleven organizational excellence goals. For a more detailed discussion of all organizational measures and performance results for FY 2011, as well as next steps, see page 67.

Destination 2025. Beginning in FY 2012, we will transition to a new strategic plan, *Destination 2025*. This plan provides a blueprint for the work ahead. *Destination 2025* contains five main goal areas that incorporate every aspect of FAA operations, from both an administrative and operational perspective. These goal areas are:

- Reach the next level of safety
- Create a workplace of choice
- Deliver aviation access through innovation
- Sustain our future
- Improve global performance through collaboration.

You will find *Destination 2025* on our Web site at **http://www.faa.gov/about/plans_reports/media/Destination2025.pdf**.

FAA TAKES AIM AT LASER POINTERS

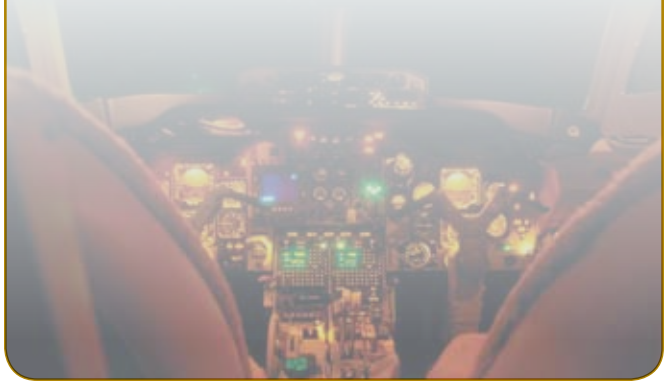
Simple hand-held laser pointers, when aimed at aircraft, can cause pilots temporary blindness or hazardous distraction, make it impossible to land the aircraft safely, and jeopardize the safety of both passengers and people on the ground. http://www.faa.gov/news/press_releases/news_story.cfm?newsId=12765

With the incidents of laser beams shining into cockpits escalating precipitously, the FAA has imposed a civil fine of up to $11,000 per violation.

How can the beams that emanate from these small, inexpensive devices, which typically supplement office and classroom presentations, threaten aircraft? Laser light expands with distance to two to three feet in width by the time that it reaches an airliner.

These incidents are not gags or pranks. Some cities and states have Federal laws making it illegal to shine lasers at aircraft, and FAA is prepared to work with Federal, state, and local law enforcement agencies to assist with criminal prosecutions. In addition, legislation that would make purposefully aiming a laser device at an aircraft a Federal crime in every state is currently pending in Congress.

The increase in incidents is apparently due to the availability of inexpensive, more powerful laser devices through online laser stores; the introduction of green lasers (more easily seen than red lasers); and increased pilot reporting of laser strikes.



FY 2011 Performance at a Glance

The following tables summarize our performance for all 29 of our FY 2011 performance measures. The measures are listed by the strategic goal and objective they support from our *FY 2009–FY 2013 Flight Plan* and our *FY 2011 Portfolio of Goals*. The Performance Results section, beginning on page 38, contains full discussions of the FAA's FY 2011 performance and results for each of these measures.

YEAR TO YEAR PERFORMANCE GOALS ACHIEVED							
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Number of Performance Targets Met	28 of 31	27 of 30	24 of 30	26 of 29	28 of 31	28 of 31	27 of 29
Percentage of Performance Targets Met	90%	90%	80%	90%	90%	90%	93%

STRATEGIC GOAL: **INCREASED SAFETY**				
Performance Measure	FY 2011 Target	FY 2011 Results	FY 2011 Status	FY 2012 Target
STRATEGIC OBJECTIVE: REDUCE COMMERCIAL AIR CARRIER FATALITIES				
Commercial Air Carrier Fatality Rate Cut the rate of fatalities per 100 million persons on board in half by 2025.	7.9	0.0[1]	✓	7.6
STRATEGIC OBJECTIVE: REDUCE GENERAL AVIATION FATALITIES				
General Aviation Fatal Accident Rate Reduce the fatal accident rate per 100,000 flight hours by 10% over a 10-year period (2009-2018).	1.08	1.16[1]	✗	1.07
Alaska Accident Rate By the end of FY 2019 reduce the Rate of Fatal and Serious Injury Accidents by 10% in 10 Years.	1.84	1.43[1]	✓	1.82
STRATEGIC OBJECTIVE: REDUCE THE RISK OF RUNWAY INCURSIONS				
Runway Incursions (Category A&B) By 2010, reduce Category A and B (most serious) runway incursions to a rate of no more than 0.45 per million operations, and maintain or improve through FY 2013.	0.450	0.138[2]	✓	0.450
Total Runway Incursions By the end of FY 2013, reduce total runway incursions by 10% to 909 from the FY 2008 baseline number of 1009.	959	953[2]	✓	939
STRATEGIC OBJECTIVE: ENSURE THE SAFETY OF COMMERCIAL SPACE LAUNCHES				
Commercial Space Launch Accidents No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	0	0	✓	0
STRATEGIC OBJECTIVE: ENHANCE THE SAFETY OF FAA'S AIR TRAFFIC SYSTEM				
System Risk Event Rate Reduce risks in flight by limiting the rate of the most serious losses of standard separation to 20 or fewer for every thousand (.02) losses of standard separation within the National Airspace System.	20	23.99[2]	✗	20
STRATEGIC OBJECTIVE: IMPLEMENT A SAFETY MANAGEMENT SYSTEM (SMS) FOR THE FAA				
Safety Management System In FY 2011, integrate Air Traffic Organization, Office of Aviation Safety, and Office of Airports into an interoperable, agency-wide SMS. In FY 2012, implement SMS policy in all appropriate FAA organizations.	SMS Implemented in 3 LOBs	SMS Implemented in 3 LOBs	✓	SMS Implemented in all Organizations

1 Preliminary estimate. Final results will be available March 2013.
2 Preliminary estimate. Final results will be available January 2012.
✓ Goal Achieved
✗ Goal Not Achieved

STRATEGIC GOAL: GREATER CAPACITY				
Performance Measure	FY 2011 Target	FY 2011 Results	FY 2011 Status	FY 2012 Target
STRATEGIC OBJECTIVE: INCREASE CAPACITY TO MEET PROJECTED DEMAND AND REDUCE CONGESTION				
Average Daily Airport Capacity (Core Airports) Achieve an average daily airport capacity for the Core Airports of 86,606 arrivals and departures per day by FY 2011 and maintain through FY 2013.	86,606	87,338[1]	✓	86,606
Average Daily Airport Capacity (7 Metro Areas) Achieve an average daily airport capacity for the seven major metropolitan areas of 39,484 arrivals and departures per day by FY 2009, and maintain through FY 2013.	39,484	42,824[1]	✓	39,484
Adjusted Operational Availability Sustain adjusted operational availability at 99.70% for the reportable facilities that support the Core Airports through FY 2013	99.70%	99.71%[1]	✓	99.70%
STRATEGIC OBJECTIVE: INCREASE RELIABILITY AND ON-TIME PERFORMANCE OF SCHEDULED CARRIERS				
NAS On-Time Arrivals Achieve a NAS on-time arrival rate of 88.00% at the Core Airports and maintain through FY 2013.	88.00%	90.26%[1]	✓	88.00%
STRATEGIC OBJECTIVE: ADDRESS ENVIRONMENTAL ISSUES ASSOCIATED WITH CAPACITY ENHANCEMENTS				
Noise Exposure Reduce the number of people exposed to significant noise by 4% compounded annually through FY 2013 from the calendar year 2005.	-19.28%	-38.31%[2]	✓	-22.51%
Aviation Fuel Efficiency Improve aviation fuel efficiency by 2% per year, through FY 2015, as measured by the calendar year 2010 fuel burned per revenue mile flown, relative to the calendar year 2000 baseline.	-12.00%	-14.50%	✓	-14.00%

STRATEGIC GOAL: INTERNATIONAL LEADERSHIP				
Performance Measure	FY 2011 Target	FY 2011 Results	FY 2011 Status	FY 2012 Target
STRATEGIC OBJECTIVE: PROMOTE IMPROVED SAFETY AND REGULATORY OVERSIGHT IN COOPERATION WITH BILATERAL, REGIONAL AND MULTILATERAL AVIATION PARTNERS				
Global Safety Enhancements Prioritize efforts to work with foreign aviation entities and industry in Africa, the Americas, Asia, Europe and the Middle East to adopt at least one U.S. aviation safety best practice per region each year.	3	25	✓	3
STRATEGIC OBJECTIVE: PROMOTE SEAMLESS OPERATIONS AROUND THE GLOBE IN COOPERATION WITH BILATERAL, REGIONAL AND MULTILATERAL AVIATION PARTNERS				
International Aviation Development Projects By 2014 arrange commitment for external funding for at least 35 aviation development projects (7 per year).	7	12	✓	7
Aviation Leaders By 2014, work with at least 18 countries or regional organizations to develop aviation leaders to strengthen the global aviation infrastructure.	4	10	✓	7
NextGen Technologies By FY 2014, expand the use of NextGen performance-based systems and concepts to five priority countries	1	2	✓	1

1 Preliminary estimate. Final results will be available January 2012.
2 Preliminary estimate. Projection to be finalized May 2012.
✓ Goal Achieved
✗ Goal Not Achieved

STRATEGIC GOAL: ORGANIZATIONAL EXCELLENCE				
Performance Measure	FY 2011 Target	FY 2011 Results	FY 2011 Status	FY 2012 Target
STRATEGIC OBJECTIVE: IMPLEMENT HUMAN RESOURCE MANAGEMENT PRACTICES TO ATTRACT AND RETAIN HIGHLY SKILLED, DIVERSE WORKFORCE AND PROVIDE EMPLOYEES A SAFE, POSITIVE WORK ENVIRONMENT				
OPM Hiring Standards By FY 2010, 80% of FAA external hires will be filled within OPM's 45-day standard for government-wide hiring.	80.00%	83.85%	✓	80.00%
Reduce Workplace Injuries Reduce the total workplace injury and illness case rate to no more than 2.44 per 100 employees by the end of FY 2011, and maintain through FY 2013.	2.44 per 100	1.57 per 100[1]	✓	2.44 per 100
Grievance Processing Time Reduce grievance processing time by 30% (to an average of 102 days) by FY 2010 over the FY 2006 baseline of 146 days, and maintain the reduction through FY 2013.	-30.00%	-68.97%	✓	-30.00%
Air Traffic Controller Workforce Plan Maintain the air traffic control workforce at, within two percent above or below, the projected annual totals in the Air Traffic Controller Workforce Plan.	+/- 2% of annual target	0.01%	✓	+/- 2% of annual target
Aviation Safety Critical Positions Workforce Plan Maintain the aviation safety workforce within one percent of the projected annual totals in the Aviation Safety Workforce Plan.	+/- 1% of annual target	0.86% above annual target	✓	+/- 1% of annual target
STRATEGIC OBJECTIVE: IMPROVE FINANCIAL MANAGEMENT WHILE DELIVERING QUALITY CUSTOMER SERVICE				
Cost Control Organizations throughout the agency will continue to implement cost efficiency initiatives such as: ■ $20 million in savings for strategic sourcing for selected products and services; ■ Reduction of $30 million in Information Technology operating costs in FY 2011.	90% of Targeted Savings	111.32% of Targeted Savings	✓	90% of Targeted Savings
Unqualified Audit Opinion Obtain an unqualified opinion on the agency's financial statements (unqualified audit with no material weakness) each fiscal year.	Unqualified Audit Opinion with No MW	Unqualified Audit Opinion with No MW	✓	Unqualified Audit Opinion with No MW
STRATEGIC OBJECTIVE: MAKE DECISIONS BASED ON RELIABLE DATA TO IMPROVE OUR OVERALL PERFORMANCE AND CUSTOMER SATISFACTION				
Critical Acquisitions on Budget In FY 2009, 90% of Major System Investments are within 10% variance of current baseline total budget estimate at completion (BAC).	90.00%	100%	✓	90.00%
Critical Acquisitions on Schedule In FY 2009, 90% of Major System Investments selected annual milestones are achieved.	90.00%	94.00%	✓	90.00%
Information Security Achieve zero cyber security events that disable or significantly degrade FAA mission critical Line of Business systems.	0	0	✓	0
STRATEGIC OBJECTIVE: ENHANCE OUR ABILITY TO RESPOND TO CRISES RAPIDLY AND EFFECTIVELY, INCLUDING SECURITY-RELATED THREATS AND NATURAL DISASTERS				
Continuity of Operations Exceed Federal Emergency Management Agency continuity readiness levels by 5%.	5% ahead of requirements	6% ahead of requirements	✓	5% ahead of requirements

1 Preliminary estimate. Projection to be finalized December 2011.
✓ Goal Achieved
✖ Goal Not Achieved

ALIGNMENT OF FAA COSTS AND GOALS

We use our Cost Accounting System (CAS) to track our costs in a matrix by organizational unit and project. At the beginning of each project, we determine the degree to which the project will contribute to one or more of our strategic goal areas: Increased Safety, Greater Capacity, International Leadership, and Organizational Excellence. At each fiscal year-end, we allocate actual project costs to the strategic goal areas that are supported by the project. Because we also routinely accumulate costs by organizational unit, we are then able to assign total net costs among our organizations by strategic goal area.

The FAA total net cost of $16.7 billion was allocated to our strategic goal areas as described below.

Increased Safety. About $12 billion, or about 72 percent, of our total net cost was devoted to our primary goal of ensuring the safety of the NAS.

- The Air Traffic Organization (ATO) spent approximately $8.6 billion, largely to maintain the safe separation of aircraft in the air and on the ground.
- The Office of Airports (ARP) directed more than $1.8 billion to establishing safe airport infrastructure.
- The Aviation Safety Organization (AVS) spent nearly $1.3 billion on its programs to regulate and certify aircraft, pilots, and airlines, directly supporting the safety of commercial and general aviation.
- The Office of Commercial Space Transportation (AST), the FAA staff offices, and other programs spent slightly more than $250 million to further support the agency's safety mission.

Greater Capacity. Approximately $4.4 billion—or about 26 percent of total net costs—was assigned to support our goal of expanding the capacity of the NAS, particularly through the pursuit of programs contributing to the NextGen initiative.

- The ATO spent about $2.7 billion, largely to finance its facilities and equipment projects.
- The ARP spent more than $1.6 billion to enhance the capacity of the country's airports through runway projects and other efforts.
- The AST contributed nearly $5.7 million on improving commercial space launch capabilities through its Spaceport Grant program.
- The AVS contributed about $800,000 to support the safe expansion of NAS capacity.

International Leadership. As a whole, we committed approximately $22.5 million to promoting international leadership.

Organizational Excellence. Approximately $352 million, the bulk of our remaining net costs, supported our goal of organizational excellence, to which nearly all the organizations contributed.

FINANCIAL HIGHLIGHTS

Discussion and Analysis of the Financial Statements

The FAA prepares annual financial statements in conformity with accounting principles generally accepted in the United States. The financial statements are subject to an independent audit to ensure that they are free from material misstatement and that they can be used to assess FAA's financial status and activity as of and for the two years ended September 30.

FY 2011 Financial Statement Audit

The Chief Financial Officers Act of 1990 (Public Law 101–576), as amended by the *Government Management Reform Act of 1994*, requires that financial statements be prepared by certain agencies and commercial-like activities of the Federal Government and that the statements be audited in accordance with Government auditing standards. FAA is required to prepare its own financial statements under OMB Bulletin No. 07–04, *Audit Requirements for Federal Financial Statements*. DOT's OIG is statutorily responsible for the manner in which the audit of FAA's financial statements is conducted. The OIG selected Clifton Gunderson LLP, an independent certified public accounting firm, to audit FAA's FY 2011 financial statements.

In 2002, DOT's OIG and Chief Financial Officer, along with FAA's Chief Financial Officer, established an Audit Coordination Committee to promote and encourage open communication among the OIG, FAA management, and the independent auditors to resolve issues that arise during the audit and to monitor the implementation of audit recommendations. The committee is chaired by the Director of the Office of Financial Management and includes representatives from the OIG; DOT's Office of Financial Management; FAA's Assistant Administrator for Regions and Center Operations; and ATO's Chief Operating Officer. In 2006, committee participation was expanded to include representatives from the Chief Counsel's Office, the Assistant Administrator for Human Resources Management, Information Services, and Airports.

Clifton Gunderson LLP has rendered an unqualified opinion on FAA's FY 2011 financial statements.

Understanding the Financial Statements

FAA's Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources, have been prepared to report the financial position and results of operations of FAA, pursuant to the requirements of the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The following section provides a brief description of (a) the nature of each financial statement and its relevance to FAA, (b) significant fluctuations from FY 2010 to FY 2011, and (c) certain significant balances, where necessary, to help clarify their link to FAA operations.

Balance Sheet

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

Assets

Total assets were $28.1 billion as of September 30, 2011. FAA's assets are the resources available to pay liabilities or satisfy future service needs. The *Composition of Assets* chart depicts major categories of assets as a percentage of total assets.

The *Assets Comparison* chart presents comparisons of major asset balances as of September 30, 2010 and 2011.

Fund balance with Treasury (FBWT) represents 13 percent of FAA's current period assets and consists of funding available through Department of Treasury accounts from which FAA is authorized to make expenditures to pay liabilities. It also includes passenger ticket and other excise taxes deposited to the Airport and Airway Trust Fund (AATF), but not yet invested. Fund balance with Treasury decreased from $4.6 billion to $3.7 billion.

At $10.3 billion, *Investments* represent 37 percent of FAA's current period assets, and are principally derived from passenger ticket and other excise taxes deposited to the AATF. These amounts are used to finance FAA's operations to the extent authorized by Congress. Investments increased by $1.8 billion.

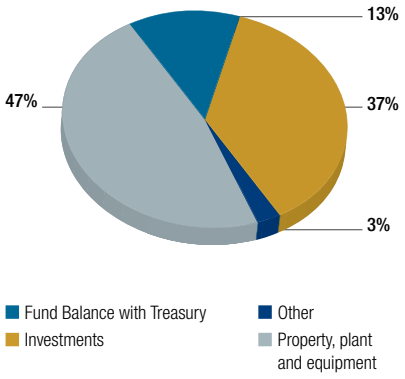
At $13.1 billion, *General property, plant, and equipment, net* (PP&E) represents 47 percent of FAA's assets as of September 30, 2011, and primarily comprises construction-in-progress related to the development of National Airspace System assets, and capitalized real and personal property. There was a slight decrease of $115.7 million in the total composition of PP&E as purchases of equipment and additions to construction-in-progress through the normal course of business were offset by retirements and depreciation.

Liabilities

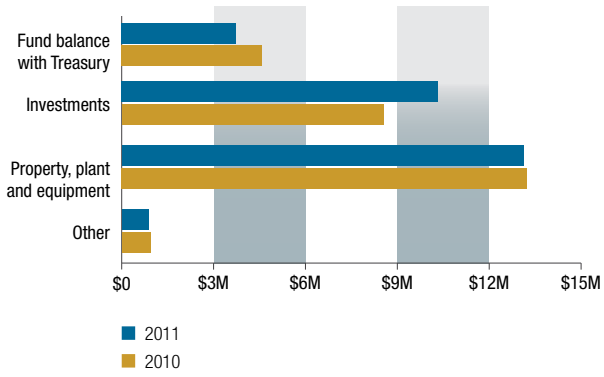
As of September 30, 2011, FAA reported liabilities of $4.4 billion. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The *Composition of Liabilities* chart on page 30 depicts FAA's major categories of liabilities as a percentage of total liabilities.

The *Liabilities Comparison* chart presents comparisons of major liability balances between September 30, 2010 and September 30, 2011. Below is a discussion of the major categories.

COMPOSITION OF ASSETS
as of September 30, 2011



ASSETS COMPARISON
(Dollars in Thousands)



At $1.6 billion, *Employee related and other liabilities* represent 35 percent of FAA's total liabilities. These liabilities increased by $67.1 million as of September 30, 2011, and are comprised mainly of $150.9 million in advances received, $208.5 million in *Federal Employee's Compensation Act* payable, $422.3 million in accrued payroll and benefits, $521.5 million in accrued leave and benefits, $66.2 million in legal claims liability and $106.3 million in capital lease liability.

At $909.6 million, *Federal employee benefits* represent 21 percent 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 upon actual workers' compensation payments to FAA employees over the preceding four years. This liability is updated an on annual basis at year end.

Environmental liabilities represent 17 percent of FAA's total liabilities and were $757.4 million as of September 30, 2011 compared with $796.2 million a year earlier. Environmental liabilities include a component for remediation of known contaminated sites and the estimated environmental cost to decommission assets presently in service.

FAA's *grants payable* are estimated amounts incurred but not yet claimed by Airport Improvement Program (AIP) grant recipients and represent 15 percent of liabilities. *Grants payable* increased $96.0 million primarily due to the affects of the interruption of construction activity during the furlough. *Accounts payable* increased $58.9 million and are amounts FAA owes to other entities for unpaid goods and services.

Statement of Net Cost

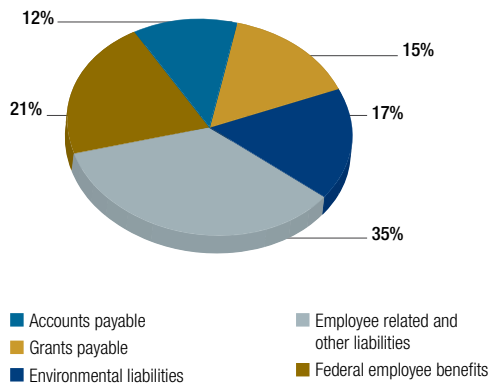
The Statement of Net Cost presents the cost of operating FAA programs. The gross expense less any earned revenue for each FAA program represents the net cost of specific program operations. FAA has used its cost accounting system to prepare the annual Statement of Net Cost since FY 1999.

As of September 30, 2011, and September 30, 2010, FAA's net costs were $16.7 billion and $16.9 billion, respectively. The *Composition of Net Cost* chart illustrates the distribution of costs among FAA's lines of business.

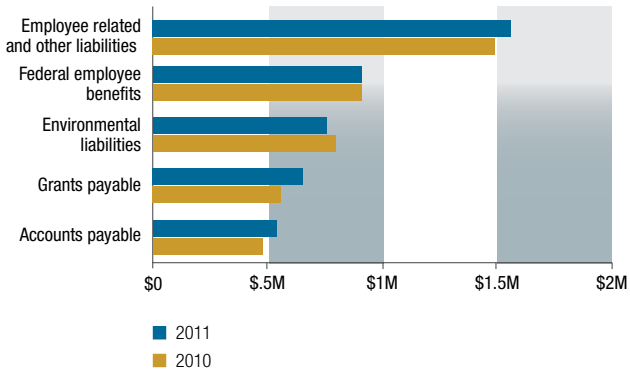
The *Net Cost Comparison* chart compares September 30, 2011, and September 30, 2010 net costs.

With a net cost of $11.6 billion, the *Air Traffic Organization* is FAA's largest organization, comprising 69 percent of total

COMPOSITION OF LIABILITIES
As of September 30, 2011



LIABILITIES COMPARISON
(Dollars in Thousands)



net costs. Air Traffic Organization's net costs increased by $374.6 million, on a comparative basis, primarily from increases in labor costs coupled with increases in contractor services.

Airports is FAA's second largest organization with a net cost of $3.4 billion as of September 30, 2011, which is 20 percent of FAA's total net costs. Net costs decreased by $626.6 million from the prior year primarily due to a decrease in Airport Improvement Program grant disbursements on a comparative basis.

The net cost of *Aviation Safety* represents 8 percent of FAA's total net costs, while Region and Center Operations and All Other comprise 3 percent of total net costs.

Statement of Changes in Net Position

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

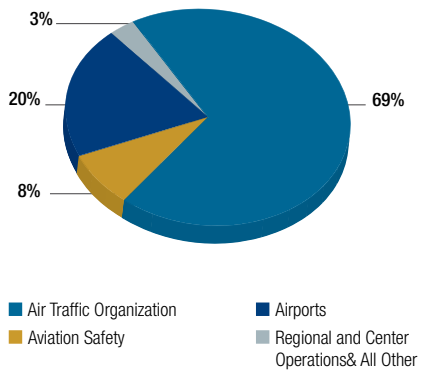
FAA's cumulative results of operations for the period ending September 30, 2011, increased $748.4 million due primarily to a combination of financing sources of $5 billion from appropriations used, non-exchange revenue of $11.8 billion, and imputed financing of $724.4 million, offset by net costs of $16.7 billion. Unexpended appropriations decreased $205.3 million due primarily to the substantive completion of expenditures for the ARRA program in 2010.

Statement of Budgetary Resources

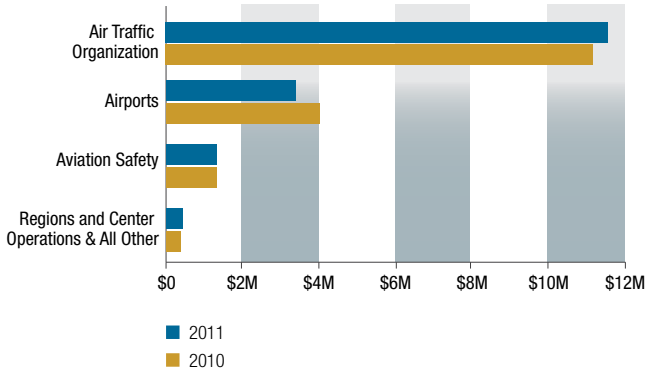
This statement provides information on the budgetary resources available to FAA as of September 30, 2011, and September 30, 2010, and the status of those budgetary resources.

Budget authority is the authority provided to FAA by law to enter into obligations that will result in outlays of Federal funds. *Obligations incurred* result from orders placed, contracts awarded, services received, or similar transaction, which will require payments during the same or a future period. *Obligations incurred* are sourced from current year budget authority and unobligated balances carried forward. *Gross outlays* reflect the actual cash disbursed by Treasury for FAA obligations. FAA reported total budget authority of $19.5 billion on September 30, 2011, compared to $19.0 billion on September 30, 2010. *Obligations incurred*

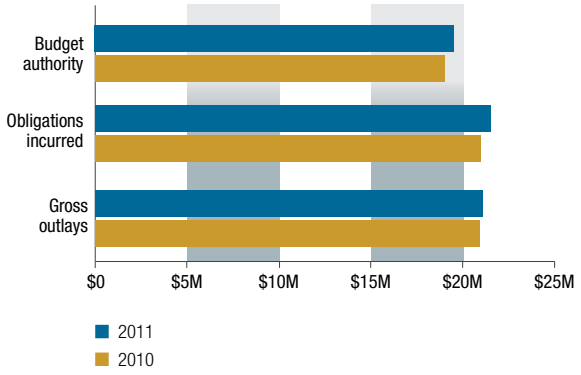
COMPOSITION OF NET COSTS
As of September 30, 2011



NET COST COMPARISON
(Dollars in Thousands)



STATEMENT OF BUDGETARY RESOURCES COMPARISON
(Dollars in Thousands)



increased $575.9 million to $21.5 billion. *Gross outlays* also increased by $164 million to $21.1 billion.

Stewardship Investments

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

FAA's research and development expenses increased in FY 2011 by $26.6 million primarily in the category of applied research. Two areas of focus this year included the development of fire safety criteria for composite aircraft and analyzing the predictability of uncontained aircraft engine failures caused by the rotating components of gas turbine engines using probabilistic fracture mechanics software.

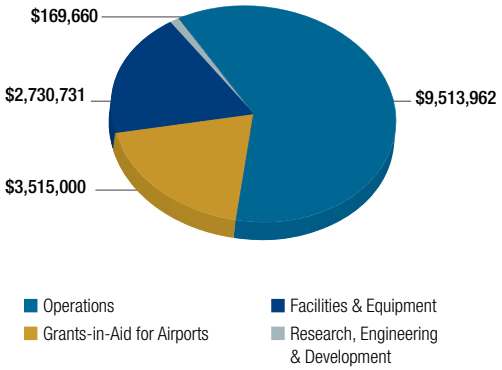
Limitations of the Financial Statements

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

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

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

FAA ENACTED BUDGET—FY 2011
(Dollars in Thousands)



Budgetary Integrity: FAA Resources and How They Are Used

The AATF provides a source of revenue to finance FAA's investments in the airport and airway system. To the extent funds are available, the AATF also covers the operating costs of the airway system. In FY 2011, the fund provided approximately 68.8 percent of our enacted budgetary authority.

Created by the *Airport and Airway Revenue Act of 1970*, the AATF derives its funding from excise taxes and earned interest. Aviation excise taxes, which include taxes on domestic passenger tickets, freight waybills, general and

commercial aviation fuel, and international departures and arrivals, are deposited into the fund.

The U.S. Department of the Treasury maintains the AATF and invests in Government securities. Interest earned is deposited into the fund. Funding is withdrawn as needed and transferred into each FAA appropriation to cover obligations.

We are financed through annual and multiyear appropriations authorized by Congress. The FY 2011 enacted budget of $15.93 billion was lower than the FY 2010 enacted level of $15.99 billion by approximately $62.4 million, less than 0.5 percent. This included $10.97 billion from the AATF and $4.96 billion from the General Fund, as enacted by the *Department of Defense and Full-Year Continuing Appropriations Act, 2011* (PL 112-10).

The FAA has four appropriations. The largest, Operations, is funded by both the Treasury's General Fund and the AATF. In FY 2011, the AATF provided 47.8 percent of the revenue for Operations. The AATF is the sole revenue source for our three capital investment appropriations:

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

Operations. The Operations appropriation finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It also funds the salaries and costs associated with carrying out our safety inspection and regulatory responsibilities. In addition, the account covers administrative and managerial costs for our international, medical, engineering, and development programs as well as for policy oversight and overall management functions.

The FY 2011 Operations appropriation was just over $9.51 billion, approximately 1.7 percent more than in FY 2010, an increase primarily attributable to payroll and inflation costs.

AIP. The Secretary of Transportation is authorized to award grants for planning and development to maintain a safe and efficient nationwide system of public airports. These grants fund approximately one-third of all capital development at the nation's public airports. Grants are issued to maintain and enhance airport safety, preserve existing infrastructure, and expand capacity and efficiency throughout the system. The program also supports noise compatibility and planning, the military airport program, reliever airports, and airport program administration.

FY 2011 funding for AIP, entirely from the AATF, was just over $3.5 billion, identical to the FY 2010 appropriation. Funding for the Small Community Air Service Development program was $6 million, again the same as the FY 2010 appropriation.

F&E. The programs funded by the F&E appropriation are our principal means of modernizing and improving air traffic control and airway facilities, particularly through programs supporting NextGen. The account also finances major capital investments required by other agency programs as well as other improvements to enhance the safety and capacity of the national airspace system. F&E was funded at $2.73 billion in FY 2011. This amount, again entirely out of the AATF, was approximately 7.5 percent below the FY 2010 level. Funding was reduced to levels not seen since before 2009, when $200 million in supplemental F&E funding was provided by the *American Recovery and Reinvestment Act of 2009*. Major systems contributing to the NextGen effort in FY 2011 included Automatic Dependent Surveillance-Broadcast (ADS-B), System Wide Information Management (SWIM), En Route Automation Modernization (ERAM), Airport Surface Detection Equipment-Model X (ASDE-X), NextGen Network Enabled Weather, the NextGen Very High Frequency Air/Ground Communications System, and National Airspace System Voice Switch.

R,E,&D. The FY 2011 appropriation for R,E,&D of slightly less $169.7 million returned us to FY 2009 levels, about 12.3 percent lower than in FY 2010. The reduction for FY 2011 included a 28.4 percent cut in programs supporting improvements in the efficiency of the air traffic control system and provided 19.6 percent less than in FY 2010 for research aimed at reducing aviation's negative impacts on the environment.

MANAGEMENT AND CONTROLS

Improving Financial Management

Cost-Effectiveness and Efficiency

The idea behind the strategic objective, *Make decisions based on reliable data to improve our overall performance and customer satisfaction*, under our Organizational Excellence strategic goal is to better prepare managers to use cost and performance data in making decisions. As a result of our efforts, the FAA was able to achieve $68 million in recurring savings in FY 2010 (from efforts put in place from FY 2005 to FY 2009), as well as an estimated $95 million in FY 2011. A few of the strategies and initiatives we implemented to achieve these savings are described below:

Service Area Restructuring. By re-evaluating and changing the structure of ATO service areas, the FAA sharply reduced staffing requirements. This activity achieved an estimated savings of $27 million in FY 2011.

Workers' Compensation Consolidation. The FAA has saved a total of $111 million in workers' compensation claims since FY 2005. Because of its record of success in this area, DOT gave FAA centralized, department-wide responsibility for managing workers' compensation claims. In FY 2011, we saved $10 million in workers' compensation costs.

Information Technology. As in most businesses, information technology (IT) investments at the FAA can be expensive and the technology can quickly become obsolete. To address this, the FAA is becoming more proactive about IT decisions by implementing agency-wide IT initiatives to consolidate resources and improve efficiency. This yielded a cost savings of more than $36 million in FY 2011. The FAA has saved a total of $211 million since inception of the Cost Control Program in FY 2005.

SAVES Program. The Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES) Program is an ambitious effort that began in FY 2006 to implement private sector best practices in the FAA procurement of administrative supplies, equipment, IT hardware, commercial off-the-shelf (COTS) software, and courier services. The SAVES program oversees nine national contracts in six different categories. Since the initiation of these contracts, we have exceeded our expected compliance rate. We currently purchase 90 percent of our office supplies through contracts, well above the target of 70 percent. The SAVES program has enabled us to gain better financial oversight in addition to significant cost savings.

Through SAVES contracts, we achieved more than $29 million in cost savings for FY 2011 and a total savings of more than $95 million since program implementation. SAVES contracts produced the following savings rates:

- 31 percent for office supplies
- 26 percent for office equipment
- 19 percent for IT hardware
- 16 percent for financial systems support
- 12 percent for COTS software
- 9 percent for ground and overnight delivery

IT Blanket Purchase Agreement. The Office of Information Technology at the Mike Monroney Aeronautical Center manages a Blanket Purchase Agreement (BPA) with a major corporation for acquisition of IT equipment including desktops, laptops, servers, printers, and monitors. We have realized cost savings of more than $ 51 million since inception of the BPA.

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

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

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

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

Implementing Expense Controls

The FAA has improved its oversight of the acquisition process to help ensure the agency is a responsible steward of the taxpayers' money. New requirements help to better manage resources and arrive at sound business-making decisions.

Procurements. In 2005, the Chief Financial Officer (CFO) was directed to exercise greater oversight and fiscal control over all agency procurements costing $10 million or more. Since that time, the CFO has evaluated more than 374 proposed acquisitions with an estimated contract value of $47 billion. Our ability to articulate and define program requirements, accurately estimate costs, and substantiate those cost estimates has greatly improved. With these improvements, we have established proper controls and can more effectively manage our contract resources.

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

Information Technology. To better coordinate IT efforts, any IT-related spending in excess of $250,000 must be approved by the Chief Information Officer (CIO). This requirement ensures that our IT investments are coordinated and fit into the agency-wide IT strategy. In FY 2011, the Information Technology Shared Services Committee was formed. This committee serves as a forum to direct the effective, secure, and cost-efficient application of non-NAS IT, related personnel resources, and funding to meet our needs.

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

Financial Management Integrity: Controls, Compliance, and Challenges

In a November 3, 2011, memorandum, the Administrator reported to the Secretary an unqualified statement of assurance under the *Federal Manager's Financial Integrity Act* (FMFIA). Every year, FAA program managers in the organizations assess the vulnerability of their program and activity management controls. On the basis of these assessments, reviews are conducted to determine their compliance with sections 2 and 4 of FMFIA. The head of the organization then identifies in writing to the Administrator any potential material internal control weakness or system nonconformance. The weaknesses deemed material are consolidated in a memorandum with a Statement of Assurance signed by the Administrator and sent to the Secretary of DOT. Our response becomes a part of the DOT Statement of Assurance sent to the President.

In addition to FMFIA, FAA reports its compliance with the *Federal Financial Management Improvement Act* (FFMIA). FFMIA requires an assessment of adherence to financial management system requirements, accounting standards and U. S. Standard General Ledger (USSGL) transaction level reporting. For FY 2011, we are reporting overall substantial compliance.

Management Assurances

Federal Managers' Financial Integrity Act Assurance Statement—Fiscal Year 2011

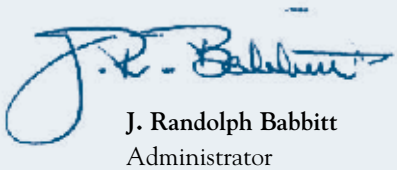
The FAA is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA; OMB Circular A-123, *Management's Responsibility for Internal Control*; and the 2009 ARRA.

These objectives are to ensure:

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

Internally, we assess the vulnerability of our programs and systems through FMFIA of 1982. We are pleased to report that taken as whole, the management controls and financial management systems in effect from October 1, 2010, through September 30, 2011, provide reasonable assurance that the objectives of both Sections 2 and 4 of the FMFIA are being met. Management controls are in place and our financial systems conform to Government-wide standards.

In addition, the FAA conducted its assessment of the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of its annual financial statements as well as safeguarding of assets and compliance with applicable laws and regulations governing the use of budgetary authority and other laws and regulations that could have a direct and material effect on the financial statements, in accordance with the requirements of Appendix A of OMB Circular A-123. The results of this evaluation provide reasonable assurance that the FAA's internal control over financial reporting was operating effectively as of September 30, 2011. Due to unlimited scope of processes tested this year and no material weaknesses reported on our financial statements, the FAA is issuing an unqualified statement of assurance.



J. Randolph Babbitt
Administrator
November 9, 2011

FINANCIAL MANAGEMENT SYSTEMS STRATEGY AND ACTIONS

Overview

The FAA used Federal Enterprise Architecture (FEA) to redesign its financial management systems' architecture, creating a financial segment that cut across all FAA organizations. Enterprise Architecture links the business, mission, strategy, and processes of an organization to its IT strategy. The FEA is the Federal Government's Enterprise and provides a common methodology for Government IT acquisition, use, and disposal.

Our financial management systems strategy is based on the FEA framework and is divided into five categories: Business, Applications, Data, Information, and Services. A summary of our financial system strategy is provided below.

- **Business**—Initiate federated financial IT management as a new business model across the agency enabling joint strategic planning and project implementation between FAA organizations.
- **Applications**—Reduce the current financial management system portfolio through a Financial Systems Modernization program that addresses redundancies in key financial and mixed financial business areas.
- **Data**—Implement a financial data management roadmap and stewardship council to govern the use and sharing of FAA financial data as a shared asset, reduce redundancy and improve data quality for decisionmaking.
- **Information**—Build an FAA-wide financial data warehouse to enable consistent reporting while maintaining each individual organization's ability to meet core mission area business reporting requirements.
- **Services**—Define and deliver shared operational and infrastructure services for the FAA financial systems.

Systems Critical to Financial Management

Accounting. Delphi is the DOT's comprehensive financial management system. Delphi records our financial transactions and account balances. Currently, DOT is working on a major upgrade to Delphi as well as using the iSupplier application for grants and vendor payments.

Acquisition. PRISM is a web-based acquisition system that integrates with Delphi's purchasing functions to provide vendor information and communicate accounting information. We are migrating toward a business process management suite of tools that will automate and integrate all activities related to procurement. We are continuing to pilot business process automation tools before we fully implement them.

Budget. We are combining current budget systems that are duplicative. A new budget enterprise system will include functionality from various financial systems and will focus on budget formulation and execution. The new budget system will link to our strategic planning process, ensuring that budget priorities are consistent with our Strategic Plan.

Internal Controls. Our Governance Risk and Control (GRC) system enables staff to manage, monitor, and test internal controls to better manage our financial controls.

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

The Financial Information Transformation (FIT) and Platform for Unified Reporting (PURE) programs are the drivers toward our strategic five-year Financial Services IT Plan.

Performance Results

FAA FISCAL YEAR 2011 PERFORMANCE MEASURES OVERVIEW

In this section, we list our 29 performance measures for FY 2011, organized by strategic goal and objective as outlined in the *FY 2009–FY 2013 Flight Plan*. Our four strategic goals are Increased Safety (p. 40), Greater Capacity (p. 52), International Leadership (p. 60), and Organizational Excellence (p. 67). **http://www.faa.gov/about/plans_reports/media/flight_plan_2009-2013.pdf**.

We provide the FY 2011 target, actual performance, a discussion of our FY 2011 performance and five years of historical trend data when available. We have also prepared a graph of performance measures with three or more years of data. In some cases, FY 2012 targets are less demanding than FY 2011 achieved results. That is because the 2012 targets for these measures are fixed in the *FY 2009–FY 2013 Flight Plan*.

Effective next fiscal year, however, the performance measures in the new Federal Aviation Administration (FAA) strategic plan, *Destination 2025*, replace the *FY 2009–FY 2013 Flight Plan* measures reported in this document. Technical definitions, data source information, statistical issues and completeness and reliability statements for our FY 2011 performance measures can be found in the FY 2011 Portfolio of Goals located on our Web site at **http://www.faa.gov/about/plans_reports/media/FY11%20Portfolio%20of%20Goals.pdf**.

In FY 2011, we saw the passage of unprecedented 20th, 21st, and 22nd reauthorization extensions, weathered a 4,000 employee furlough, and dealt with resource constraints. Despite these difficulties, we were able to meet 27 of 29 performance measure targets. For the performance measures for which end-of-year data are preliminary or estimated, we will report the final data in the FY 2012 Performance and Accountability Report (PAR). Also in this FY 2011 PAR, we have updated FY 2010 performance results for the performance measures for which we did not have final data when the FY 2010 PAR was published.

We have included discussions of the ways our performance data are verified and validated as well as of the completeness and reliability of our performance data on page 81. Our FY 2011 Performance Results section concludes with a selection of summaries of the program evaluations conducted during FY 2011 (pages 81–83).

INCREASED SAFETY

Achieve the lowest possible accident rate and constantly improve safety.

The United States has the safest and most efficient aviation system in the world. Safety is our hallmark at the FAA. Along with our industry partners, we have built a system that has reduced the risks of flying to all-time lows. By overseeing this complex aviation system, we serve millions of people who travel on commercial airlines for work or for recreation and hundreds of thousands who make aviation their livelihood. The level of public confidence in the safety of air travel has a huge impact on the economic health of both the industry and the United States.

FY 2011 INCREASED SAFETY PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2011 Target	FY 2011 Result	FY 2011 Status	FY 2012 Target
Commercial Air Carrier Fatality Rate Cut the rate of fatalities per 100 million persons on board in half by 2025.	7.9	0.0[1]	✓	7.6
General Aviation Fatal Accident Rate Reduce the fatal accident rate per 100,000 flight hours by 10% over a 10-year period (2009-2018).	1.08	1.16[1]	✗	1.07
Alaska Accident Rate By the end of FY 2019 reduce the Rate of Fatal and Serious Injury Accidents by 10% in 10 Years.	1.84	1.43[1]	✓	1.82
Runway Incursions (Category A&B) By 2010, reduce Category A and B (most serious) runway incursions to a rate of no more than 0.45 per million operations, and maintain or improve through FY 2013.	0.450	0.138[2]	✓	0.450
Total Runway Incursions By the end of FY 2013, reduce total runway incursions by 10% to 909 from the FY 2008 baseline number of 1009.	959	953[2]	✓	939
Commercial Space Launch Accidents No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	0	0	✓	0
System Risk Event Rate Reduce risks in flight by limiting the rate of the most serious losses of standard separation to 20 or fewer for every thousand (.02) losses of standard separation within the National Airspace System.	20	23.99[2]	✗	20
Safety Management System In FY 2011, integrate Air Traffic Organization, Office of Aviation Safety, and Office of Airports into an interoperable, agency-wide SMS. In FY 2012, implement SMS policy in all appropriate FAA organizations.	SMS Implemented in 3 LOBs	SMS Implemented in 3 LOBs	✓	SMS Implemented in all Organizations

1 Preliminary estimate. Final results available March 2013.
2 Preliminary estimate. Final results available January 2012.
✓ Goal Achieved
✗ Goal Not Achieved

OBJECTIVE: Reduce Commercial Air Carrier Fatalities

COMMERCIAL AIR CARRIER FATALITY RATE

Cut the rate of fatalities per 100 million persons on board in half by 2025	
FY 2011 Target	In FY 2011, the commercial air carrier fatality rate will not exceed 7.9 fatalities per 100 million people on board.
FY 2011 Result	✓ **0.0** *(Preliminary estimate)*
Public Benefit	As fatal air carrier accidents have declined in terms of average fatalities per accident, this measure will sharpen FAA's focus on helping air travel become even safer.

With more than 10 million flights and 794 million passengers in FY 2011, commercial aviation continues to be one of the safest forms of transportation. As the stewards of aviation safety, FAA and its partners have built a system that has reduced the risks of flying to all-time lows and are committed to the public's safety. Commercial aviation includes both scheduled and nonscheduled flights of U.S. passenger and cargo air carriers and scheduled passenger flights of regional operators. Accidents involving passengers, crew, ground personnel, and the public are all included in this fatality rate.

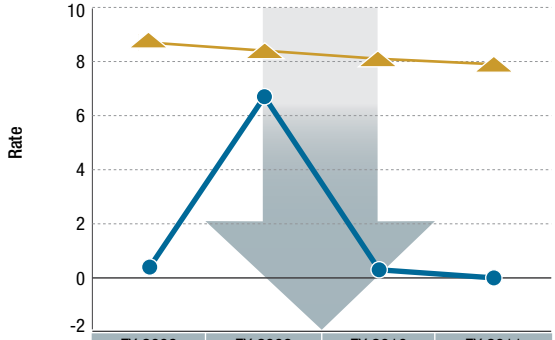
We are happy to report there were no commercial fatal accidents in FY 2011. We were successful in maintaining the commercial air carrier rate below 7.9 fatalities per 100 million people on board.

We were challenged by the number of projects directly tasked to us by Congress in the *Airline Safety and FAA Extension Act of 2010*. Although this bill promoted many of the projects in which we were already engaged, it added additional projects that drew resources that would have been used elsewhere.

Certain initiatives helped us to focus on recently identified risks and maintain a higher level of safety throughout the National Airspace System (NAS). Achievements in these areas include:

- Continued implementation of Performance-Based Navigation (PBN) routes and procedures. The goal of this initiative is to achieve improved minima and precision-like capability.
- Developed draft Helicopter Localizer Performance with Vertical Navigation (LPV) instrument standards for helicopters. In addition to improving air carrier safety standards, this criteria will also be the instrument-approach basis for the NTSB-recommended Helicopter Infrastructure, one of the recommendations made to reduce Emergency Medical Service accidents.
- Created Next Generation Air Transportation System branches in the regions to provide standardization across regions for implementing safety-enhancing NextGen technology.
- Published the *Initial Navigation Procedures Project Implementation Plan* in June 2011. The project will implement recommendations to streamline the development and delivery of all instrument flight procedures.
- Published several guidance documents for Automatic Dependent Surveillance-Broadcast (ADS-B) operations.

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



	FY 2008	FY 2009	FY 2010	FY 2011
ACTUAL	0.4	6.7	0.3[1]	0.0[2]
TARGET	8.7	8.4	8.1	7.9
TARGET ACHIEVED?	✓	✓	✓	✓

This measure was redefined in FY 2008.

[1] Preliminary estimate until March 2012.
[2] Preliminary estimate until March 2013.

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

Additionally, we have undertaken several prominent rulemaking projects in areas including:

- Pilot flight and duty limitations as well as rest requirements
- Crewmember and aircraft dispatcher training and qualification requirements
- Pilot mentoring as well as leadership and command training.

These projects address risks identified during the investigation of the fatal Colgan Air accident in 2009. We have also undertaken rulemaking to revise requirements for air ambulance operations.

Our commercial safety record indicates the agency has successfully addressed the majority of known system risks contributing to accidents or incidents. As we develop and deploy NextGen systems, the increased degree of complexity will require improved analytical methods and tools for evaluating the safety risks of proposed changes. To manage these complex changes, we are establishing a Safety Management System (SMS) while working with stakeholders to establish their own SMSs to identify potential risk areas. With the interoperable SMS in place, we and the aviation industry can work together to identify and manage systemic risks using a three-pronged strategy: 1) Continue to react to incidents and accidents; 2) Increase our ability to proactively respond to warnings and precursors; and 3) Develop systematic methodologies to anticipate hazards.

OBJECTIVE: Reduce General Aviation Fatalities

GENERAL AVIATION FATAL ACCIDENT RATE

Reduce the fatal accident rate per 100,000 flight hours by 10% over a 10-year period (2009-2018).		
FY 2011 Target		Limit the general aviation fatal accident rate to no more than 1.08 fatal accidents per 100,000 flight hours.
FY 2011 Result	✘	**1.16** *(Preliminary estimate)*
Public Benefit		By tracking the rate of fatal accidents per flight hours, FAA can more accurately pinpoint safety concerns or trends indicating potential safety concerns.

Although commercial aviation makes more headlines, general aviation (GA) is just as important to our aviation system. General aviation comprises a diverse range of aviation activities, from single-seat homebuilt aircraft, helicopters, balloons, single and multiple engine land and seaplanes, to highly sophisticated extended range turbojets. More people perish from general aviation accidents each year than in U.S. commercial air carriers. Therefore, reducing the rate of fatal general aviation accidents is a top priority for FAA.

We did not meet the target this year for reducing the General Aviation Fatal Accident Rate per 100,000 flight hours. We finished the year with a rate of 1.16 fatal accidents per 100,000 flight hours. Most of the fatalities occurred in the area of experimental aircraft, many caused by human factors.

An experimental aircraft is predominately amateur-built, which has been fabricated and assembled by person(s) who undertook the construction project solely for their own education or recreation. These aircraft accounted for approximately 26 percent of GA fatal accidents in FY 2011 while only contributing to 5 percent of GA hours.

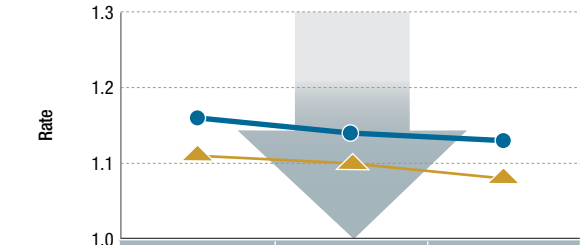
Approximately 80 percent of GA fatal accidents are directly related to some form or combination of human factors. We continue to identify and investigate factors that may contribute to accidents and use this information to develop and implement strategic initiatives, methods, and technologies that reduce safety risks.

Our Flight Standards organization is spearheading several aggressive initiatives to address the troubling GA accident trends. One initiative has refocused our Safety Team on general aviation. Another initiative involves addressing the operating limitations for amateur-built aircraft to include second owners since that is where data reveals a disproportionate number of accidents occur.

We are working with industry to help reduce the GA accident rate. In FY 2011, we re-energized the General Aviation Joint Steering Committee (GAJSC) to take a more focused, data-driven approach to understanding fatal accident causes and contributing factors. This is a Government-industry group that manages efforts to reduce fatal general aviation accidents. The GAJSC meets to reviewing GA accident trends, establishing areas for special emphasis, and sharing information.

In addition, we updated training guidance and are working with various members of the GA community, including aero-medical evacuation, charter services, and others to promote education and training on night landings, weather, and other areas of concern.

GENERAL AVIATION FATAL ACCIDENT RATE
Fatal Accidents per 100,000 Flight Hours



	FY 2009	FY 2010	FY 2011
ACTUAL	1.16	1.14[1]	1.16[2]
TARGET	1.11	1.10	1.08
TARGET ACHIEVED?	✘	✘	✘

This measure was redefined in FY 2009.

[1] Preliminary estimate until March 2012.
[2] Preliminary estimate until March 2013.

ALASKA ACCIDENT RATE

By the end of FY 2019, reduce the Rate of Fatal and Serious Injury Accidents by 10% in 10 Years.	
FY 2011 Target	Limit the rate of fatal and serious injury accidents per 100,000 flight hours in Alaska for general aviation and all part 135 operations to no more than 1.84.
FY 2011 Result	✓ 1.43 *(Preliminary estimate)*
Public Benefit	Aviation is the primary source of transportation for the majority of the residents in Alaska. However, the state's topography and weather present unique safety challenges. This measure allows FAA to follow trends and focus risk mitigation efforts in Alaska. Therefore, FAA is improving safety for a great number of the residents in this state.

More than three-quarters of Alaskan communities have no access to highways or roads and depend on general aviation for access to food, mail, jobs, schools, medical services and travel. However, the state's topography and extreme weather present unique safety challenges to pilots resulting in a relatively high number of accidents. As a result, we have a performance target to reduce the number of accidents within the state of Alaska.

In FY 2010, we replaced the original Alaska Accidents measure with the Alaska Accident Rate, which tracks changes in the fatal and serious injury (FSI) accident rate for a fixed volume of flight hours. This new measure reflects fleet activity levels and their relationship to the number of fatal and serious injury accidents.

This fiscal year, we met the target for reducing the Alaska Accident Rate per 100,000 flight hours. We ended with a rate of 1.43 fatal and serious injury accidents per 100,000 flight hours.

Multiple safety initiatives were effective in reducing early season FSI accidents. The FSI accident rate for the first seven months of the fiscal year was zero; a first in Alaskan aviation history. As flying activity increased, FSI accidents for the remainder of the fiscal year also increased but remained below historical levels.

Internal FAA activities that impacted the outcome include:

- The Alaska GA Initiative which required a minimum of 300 face-to-face contacts with general aviation airmen throughout the region.
- Targeted risk-based special surveillance programs based on pockets of geographic risk.
- Increased focus on GA surveillance and GA contacts during August—traditionally the highest accident month.
- Development and implementation of Visual Cue-based training in Southeast Alaska to improve weather decisionmaking among pilots along air tour routes in Juneau and Ketchikan.

Safety Programs

In FY 2011, we continued to work jointly with the Alaska aviation community through a number of organizations and safety programs such as the Medallion Foundation, the Circle of Safety program, the FAA Safety Team, the Alaska Air Carriers Association, the Alaska Aviation Safety Foundation, and Alaska Airman's Association. This joint industry-FAA effort supports the *Flight Plan* strategy for sharing safety information.

The Medallion Foundation seeks to improve Alaskan aviation safety by developing and implementing voluntary aviation safety standards that exceed regulatory requirements and are based on accepted system safety concepts.

The Circle of Safety program educates passengers, contractors of aviation services, and commercial air operators in their shared responsibility for flight safety. In FY 2011, the FAA Safety Team collaborated with external Circle of Safety stakeholders, including certificate management teams, commercial operators, and passenger groups to revise and implement program materials relating to flight safety in Alaska.

ALASKA ACCIDENT RATE
Fatal and Serious Injury Accidents per 100,000 Flight Hours

Fiscal Year	Target	Actual Performance	Target Achieved?
2009	This measure was redefined in FY 2010.		
2010	1.86	2.19[1]	✗
2011	1.84	1.43[2]	✓

1 Preliminary estimate. Final results available March 2012.
2 Preliminary estimate. Final results available March 2013.

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

NextGen Technology

In addition to training and education efforts, our agency is using NextGen technology in Alaska, such as satellite-based Automatic Dependent Surveillance-Broadcast (ADS-B) navigation and terrain awareness avionics, to increase safety. In FY 2011, we continued to place increased emphasis on implementing an improved, statewide, public route structure. This route structure is enabled by the Required Performance/Area Navigation (RNP/RNAV) Wide Area Augmentation System (WAAS).

The RNP/RNAV initiative has been in the *Flight Plan* since 2004 in support of the congressionally mandated Alaskan Capstone Program. The National Transportation Safety Board (NTSB) published a safety study in November 1995 that identified deficiencies in the current instrument flight rules (IFR) system such as inadequate low-altitude navigation infrastructure and instrument approaches. In conjunction with the Capstone Program, the FAA enabled the operational use of a global positioning system (GPS) and WAAS for navigation and access to uncontrolled airports by developing GPS airways and instrument approach and departure procedures.

The RNAV/RNP initiative provides an avenue for FAA to manage an integrated schedule to operationally enable a GPS/RNAV WAAS Route structure in Alaska. Implementation is under way. This will improve operator efficiency, increased access across Alaska, and improved safety by increasing situational awareness while incrementally reducing dependency on ground based navigation facilities. Information about FAA's NextGen Implementation Plan, including RNP/RNAV, can be found at **http://www.faa.gov/nextgen/media/ng2011_implementation_plan.pdf**.

OBJECTIVE: Reduce the Risk of Runway Incursions

RUNWAY INCURSIONS (CATEGORY A & B)

By 2010, reduce Category A and B (most serious) runway incursions to a rate of no more than 0.450 per million operations, and maintain or improve through FY 2013.	
FY 2011 Target	Limit Category A and B (most serious) runway incursions to a rate of no more than 0.450 per million operations.
FY 2011 Result	✓ 0.138 *(Preliminary estimate)*
Public Benefit	Reduced probability that the public will be injured or killed in an accident resulting from a runway incursion.

This performance measure is a DOT Priority Goal.

A runway incursion is any unauthorized intrusion onto a runway, regardless of whether or not an aircraft presents a potential conflict. This includes the incorrect presence of an aircraft, vehicle, or person on the protected area of a surface designated for the landing and takeoff of aircraft. Such an event can create dangerous situations that can lead to serious accidents that potentially involve fatalities, injuries, and significant property damage.

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

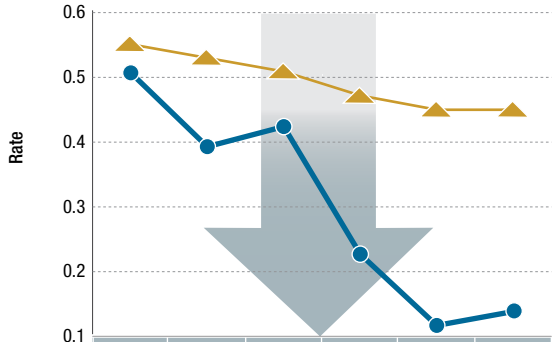
- **Category A**–a serious incident in which a collision was narrowly avoided.
- **Category B**–an incident in which separation decreases and there is a significant potential for collision, which may result in a time-critical corrective/evasive response to avoid a collision.

The year-to-date rate of 0.138 for A and B incursions is well below the .450 target.

Since the Administrator's Call to Action on runway safety in August 2007, the FAA and the industry have worked together to implement improvements, raise awareness, and educate pilots, drivers and controllers about the risks of runway incursions. Given that many foreign air carriers operate within the United States, we also continue to support the International Civil Aviation Organization (ICAO) runway safety programs. All of these efforts are resulting in a reduced risk to the flying public.

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

RUNWAY INCURSION (CATEGORY A & B)
Per Million Operations



	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ACTUAL	0.507	0.393	0.424[1]	0.227	0.117[2]	0.138[3]
TARGET	0.551	0.530	0.509	0.472	0.450	0.450
TARGET ACHIEVED?	✗	✓	✓	✓	✓	✓

[1] Final result revised from preliminary estimate 0.427 in FY 2011.
[2] Final result.
[3] Preliminary estimate until January 2012 .

The timeline for these initiatives is:

Runway Safety Council

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

Runway Status Lights

- By the end of 2015, runway status lights are slated to be operational at 23 airports.

Low-Cost Ground Surveillance

- By the end of 2012, operational evaluations of Low-Cost Ground Surveillance at pilot sites will be conducted.

We are committed to mitigating the risks of runway incursions. We continue our ongoing outreach, education, and awareness programs to affected groups through mass electronic mail communications, training animations, and a new Web page (**http://www.asias.faa.gov/portal/page/portal/asias_pages/asias_home/welcome_tab**). Our efforts are having a positive impact, resulting in a reduced risk of runway incursions for the flying public.

TOTAL RUNWAY INCURSIONS

By the end of FY 2013, reduce total runway incursions by 10% to 909 from the FY 2008 baseline number of 1009.	
FY 2011 Target	Reduce the number of total number runway incursions to 959.
FY 2011 Result	**953** *(Preliminary estimate)*
Public Benefit	Reduced probability that the public will be injured or killed in an accident resulting from a runway incursion.

Runway safety is a responsibility shared among pilots, controllers, and vehicle operators, all of whom constantly interact on the airport surface via radio communication, coordination, movement, and procedures. Technology, training, safety promotion, and situational awareness are essential to reducing the severity and frequency of runway incursions.

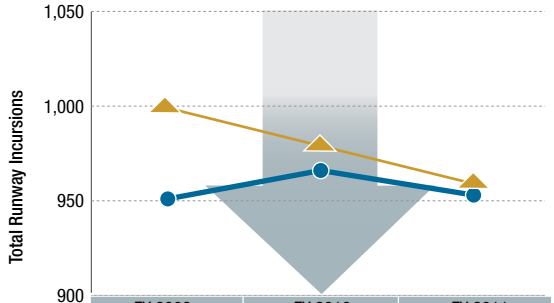
In FY 2011, we met our target of reducing the number of runway incursions to 959. We ended the year with 953 runway incursions.

The Office of Runway Safety, in conjunction with the Air Traffic Safety Action Program, has encouraged increased event reporting. However, increased reporting has resulted in the increase in lower severity event counts. Approximately three runway incursions occur daily across the United States, two of which usually involve pilot error. The majority of those errors are caused by GA pilots. The FAA is keenly focused on collaborating with general aviation pilots on runway safety issues and is working with the Aircraft Owners and Pilots Association (AOPA) to reach its more than 400,000 member pilots and flight instructors.

Several years ago we launched an intensive effort to improve runway safety. That effort included the expedited installation of new technology at airports, expanded requirements for improved signage and markings at airports, and improved pilot training on runway conflict scenarios.

In FY 2011, we continued to install Runway Status Lights Systems at airports across the country. The runway safety system gives direct warnings to pilots of potential runway incursions or collisions through a network of red lights embedded in the airfield pavement. The lights warn pilots when it is unsafe for a pilot to enter, cross or proceed down a runway. Pilots must stop when the red lights are illuminated and may not continue without clearance from air traffic control.

TOTAL RUNWAY INCURSIONS



	FY 2009	FY 2010	FY 2011
ACTUAL	951	966[1]	953[2]
TARGET	999	979	959
TARGET ACHIEVED?	✓	✓	✓

This was a new measure in FY 2009.

[1] Final result revised from preliminary estimate of 967 in FY 2011.

[2] Preliminary estimate until January 2012.

OBJECTIVE: Ensure the Safety of Commercial Space Launches

COMMERCIAL SPACE LAUNCH ACCIDENTS

No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and re-entry activities.		
FY 2011 Target		No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and re-entry activities.
FY 2011 Result	✓	**Zero fatalities, serious injuries, or significant property damage**
Public Benefit		AST's oversight of the commercial space launch industry activities resulted in no loss of life or property damage to the uninvolved public.

The FAA's Office of Commercial Space Transportation (AST) was established by Executive Order in 1984 and is the singular entity with authority to regulate all commercial space launch and re-entry activities. The AST's mission is to ensure protection of the public, property, and the national security and foreign policy interests of the United States during such activities and to encourage, facilitate, and promote U.S. commercial space transportation.

In FY 2011, we met our target of zero fatalities, serious injuries, or significant property damage to the general public. The target was maintained with two licensed launches and two "permitted launches." "Permitted launches" are test launches conducted primarily for purposes of research and development. Additionally, there were more than 10 amateur test flights this fiscal year.

Our internal safety activities played an important role in our achieving the target. These activities included conducting 51 safety inspections, granting licenses and experimental permits, developing and issuing regulations, issuing safety approvals, and supporting Federal range operations and space traffic management.

Since 1989, the U.S. commercial space launch industry has conducted 227 launches without any fatalities, serious injuries, or significant property damage as a result. This record demonstrates a robust commitment to safety by both the industry and the agency. The expectation of the flying public is that the safety record must remain unfailingly consistent and extraordinarily strong.

The new era in space transportation will bring advancements in technologies and increased licensee applications. As a result, it is essential that we explore ways to enhance current safety practices. Increasing safety inspections, improving qualification and training methods of FAA personnel, and enforcing common safety requirements are just a few ways that we are working to ensure the global viability and safety of the ever-changing commercial space transportation arena.

COMMERCIAL SPACE LAUNCH ACCIDENTS
Number of fatalities, accidents, or property damage during space launches

Fiscal Year	Target	Actual Performance	Target Achieved?
2006	0	0	✓
2007	0	0	✓
2008	0	0	✓
2009	0	0	✓
2010	0	0	✓
2011	0	0	✓

OBJECTIVE: Enhance the Safety of FAA's Air Traffic Systems

SYSTEM RISK EVENT RATE

Reduce risks in flight by limiting the rate of the most serious losses of standard separation to 20 or fewer for every thousand (.02) losses of standard separation within the National Airspace System.	
FY 2011 Target	Limit the rate of the most serious losses of standard separation to 20 or fewer for every thousand (.02) losses of standard separation within the National Airspace System.
FY 2011 Result	✘ 23.99[1] *(Preliminary estimate)*
Public Benefit	An increase in data reporting results in an increase in safety. A similar approach (increased data collection from pilots using the Aviation Safety Action Program) produced a dramatic decrease in the accident rate during the first part of the 21st century.

1 Final result available January 2012.

FAA's Air Traffic Organization (ATO) ensures that aircraft flying within the National Airspace System (NAS) maintain required separation from each other. To control losses of separation, we need an accurate picture of system safety performance. Until now, the agency measured a subset of system performance, which limited our ability to identify risk.

The System Risk Event Rate (SRER), introduced in FY 2011, is a Safety Management System-based approach to separation loss mitigation. This new measure incorporates a risk analysis process developed, established and used by multiple international air navigation service providers. It will improve analysis and increase our ability to mitigate risks associated with losses of separation. The SRER measure replaces the Operational Errors performance measure which will continue to be tracked for two more years.

In FY 2011, with a result of 23.99, we did not achieve our target of limiting the rate of the most serious losses of standard operation to 20 or fewer for every thousand (.02) of standard separation within the NAS. The initial target of 20 was based on a projection of SRER from historical Operational Error and Pilot Deviation data. Current SRER results continue to hover around 20. The target of 20 set for FY 2011 through FY 2014 will establish a baseline while deploying improved analysis and loss-detection equipment. It will set a minimum level of system performance that should be attainable, while we continue to strive for an improving trend over historical performance.

The SRER allows us to:

- Increase the amount of data collected and analyzed for better understanding
- Align our approach to safety with that of our international partners
- Integrate pilot and controller performance data on all air traffic incidents
- Evaluate separation incidents caused by other factors, including pilot deviations
- Avoid underreporting and misclassification of incidents.

Finally, this change will improve our ability to measure the system-wide safety performance of NextGen implementation. With this additional data we will be able to determine the safety impact of new NextGen air traffic procedures and technologies and, ultimately, to make decisions about reductions in separation standards.

SYSTEM RISK EVENT RATE
Rate of Serious Losses of Standard Separation per Thousand Losses

Fiscal Year	Target	Actual Performance	Target Achieved?
2011	This is a new measure for FY 2011.		

OBJECTIVE: Implement A Safety Management System (SMS) for the FAA

SAFETY MANAGEMENT SYSTEM

In FY 2011, integrate Air Traffic Organization, Office of Aviation Safety, and Office of Airports into an interoperable, agency-wide SMS. In FY 2012, implement SMS policy in all appropriate FAA organizations.	
FY 2011 Target	Complete key activities supporting integration of the Air Traffic Organization, Office of Aviation Safety, and Office of Airports into an interoperable, agency-wide SMS.
FY 2011 Result	✓ SMS Implemented in 3 LOBs
Public Benefit	Implementation of the SMS will assure ever-increasing levels of safety for the flying public as new systems and technologies are deployed into the National Airspace System moving toward NextGen.

Our agency's SMS is a formal approach to managing our safety through four key components: safety policy, safety risk management, safety assurance, and safety promotion. SMS gives us the ability to detect safety risk before accidents occur, rather than learning from accident data after the fact. SMS helps us find more sophisticated ways of analyzing seemingly insignificant data to uncover trends that point to safety risk. In an industry with so few accidents, this business-like approach gives us the tools to make better-informed decisions and manage issues before they become incidents or accidents.

SMS is becoming the standard for aviation safety worldwide. The ICAO requires a state safety plan internationally for the management of safety risk in air navigation and traffic control systems. ICAO is currently expanding this requirement into air operations, maintenance, and aircraft production.

In FY 2011, all four of the four SMS key activities were achieved. Internal FAA organizations, Airports (ARP), Air Traffic Organization (ATO) and Aviation Safety (AVS) collaborated to make the following efforts toward full SMS implementation:

- Harmonization of AVS SMS—each service and office will draft a plan that will be rolled up into the FAA Implementation Plan
- Initiation of SMS for certain projects at large HUB airports
- Completed SMS rulemaking comment period and publication of findings from two SMS pilot studies
- Development of policies, procedures, and approval processes to enable operation of unmanned aircraft system (UAS).

Today, there is a more collaborative culture within the FAA lines of business (LOBs). The FAA LOBs are:

- Harmonizing their SMS effort
- Collaborating on common topics of interest
- Sharing lessons learned
- Ensuring the progression of SMS in a similar direction
- Creating interfaces within the SMS components in all LOBs
- Managing issues of mutual concern.

Additionally, integration opportunities are developing to ensure inter-operability with product and service providers across FAA organizations.

FAA SMS implementation plans are being finalized and executed at all levels of the agency. Additional rules for product and service providers' rule-making efforts are being considered and analyzed with industry support.

SAFETY MANAGEMENT SYSTEM
Agency-wide SMS and SMS policy

Fiscal Year	Target	Actual Performance	Target Achieved?
2006	3 SMS Applications	4 SMS Applications	✓
2007	3 SMS Applications	3 SMS Applications	✓
2008	6 SMS Applications	6 SMS Applications	✓
2009	9 SMS Activities Achieved	9 SMS Activities	✓
2010	Implement SMS in 3 LOBs	SMS Implemented in 3 LOBs	✓
2011	Implement SMS in 3 LOBs	SMS Implemented in 3 LOBs	✓

GREATER CAPACITY

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

Meeting capacity needs continues to be one of our biggest challenges today and into the future. While NextGen is fostering the capabilities we need to efficiently meet long-term demands for capacity, other initiatives, such as airfield construction, airspace redesign, and air traffic control procedure revisions, are helping us meet the nation's short-term capacity needs.

Since Automatic Dependent Surveillance-Broadcast (ADS-B) technology was deployed nationwide in September 2010, the public has benefited from the increased accuracy, integrity, and reliability of satellite signals over radar. ADS-B allows air traffic controllers to safely reduce the mandatory separation between aircraft in non-radar areas, which in turn increases capacity in areas such as the Gulf of Mexico. We are partnering with JetBlue to equip some of its aircraft with ADS-B, which will allow some of the company's planes to fly more direct routes over the water. JetBlue will now be able to take advantage of new NextGen routes from Boston and New York to Florida and into the Caribbean and bypassing the congested routes. More information about how NextGen technology is improving capacity can be found on pages 11–13 in the Management Discussion and Analysis section.

FY 2011 GREATER CAPACITY PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2011 Target	FY 2011 Result	FY 2011 Status	FY 2012 Target
Average Daily Airport Capacity (Core Airports) Achieve an average daily airport capacity for the Core Airports of 86,606 arrivals and departures per day by FY 2011 and maintain through FY 2013.	86,606	87,338[1]	✓	86,606
Average Daily Airport Capacity(7 Metro Areas) Achieve an average daily airport capacity for the seven major metropolitan areas of 39,484 arrivals and departures per day by FY 2009, and maintain through FY 2013.	39,484	42,824[1]	✓	39,484
Adjusted Operational Availability Sustain adjusted operational availability at 99.70% for the reportable facilities that support the Core Airports through FY 2013.	99.70%	99.71%[1]	✓	99.70%
NAS On-Time Arrivals Achieve a NAS on-time arrival rate of 88.00% at the Core Airports and maintain through FY 2013.	88.00%	90.26%[1]	✓	88.00%
Noise Exposure Reduce the number of people exposed to significant noise by 4% compounded annually through FY 2013 from the calendar year 2005.	-19.28%	-38.31%[2]	✓	-22.51%
Aviation Fuel Efficiency Improve aviation fuel efficiency by 2% per year, through FY 2015, as measured by the calendar year 2010 fuel burned per revenue mile flown, relative to the calendar year 2000 baseline.	-12.00%	-14.50%	✓	-14.00%

1 Preliminary estimate. Final result will be available January 2012.
2 Projection to be finalized in May 2012.
✓ Goal Achieved
✖ Goal Not Achieved

OBJECTIVE: Increase Capacity to Meet Projected Demand and Reduce Congestion

Growth in air travel has generally been accomplished by increasing the number of flights. Inadequate airport capacity limits the ability to provide increased service without causing delays. The FAA measures the average daily airport capacity for both the Core Airports and airports in the seven major metropolitan areas of the country.

AVERAGE DAILY AIRPORT CAPACITY (CORE AIRPORTS)

Achieve an average daily airport capacity for the Core Airports of 86,606 arrivals and departures per day by FY 2011 and maintain through FY 2013.		
FY 2011 Target		Achieve an average daily airport capacity for the Core Airports of 86,606 arrivals and departures per day.
FY 2011 Result	✓	87,338 *(Preliminary estimate)*
Public Benefit		The public benefits from increased capacity by experiencing a decrease in delays and improved on-time performance.

In FY 2011, we revised this performance measure to include a new set of airports, replacing the original 35 Operational Evolution Partnership airports. New targets were set as a result of this change, therefore, no trend data are listed.

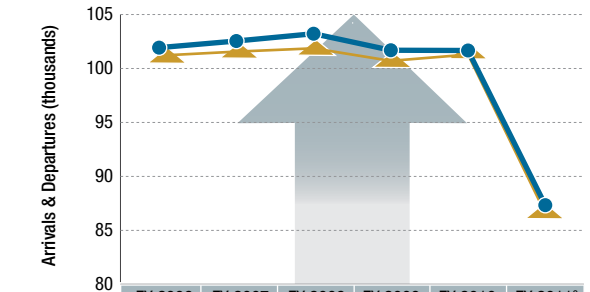
The original Operational Evolution Partnership airports consisted of the top 35 congested airports in the country. These airports were part of the Operational Evolution Plan, a tactical plan with a focus on relieving pressure at chronically congested airports by means of new runways, procedures, technologies, and airspace redesign projects. Over time, the number of flights and passengers flying from certain airports has changed. We revaluated these patterns and revised the list of airports to include the current most congested airports in the country. Instead of defining the number of airports in the performance measure, we changed the title to "Core Airports."

In FY 2011, we are well above the target, mostly due to the impact of runway construction this fiscal year. More flights are able to depart from airports where more runways have been added and where old runways have been repaired. We continue to educate tower and traffic management personnel on the importance of the accuracy of recording arrival and departure rates. Several of the facilities are improving their accuracy when recording these rates as they gain more experience in that area.

In the past, many facilities paid little attention to the accuracy of their arrival and departure rates and few entered them into the Command Center Operational Information System. We are continuing efforts to ensure consistent and accurate data are provided by all airports. This effort has included ongoing education for air traffic and traffic management personnel, as well as consistent monitoring of capacity trends at these airports.

Continued deployment of the Traffic Management Advisor (TMA) decision support tool is also expected to optimize the flow of aircraft into capacity-constrained airports.

AVERAGE DAILY AIRPORT CAPACITY (CORE AIRPORTS)
Arrivals & Departures



	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011[2]
ACTUAL	101,932	102,545	103,222	101,691	101,668	87,338[3]
TARGET[1]	101,191	101,562	101,868	100,707	101,290	86,606
TARGET ACHIEVED?	✓	✓	✓	✓	✓	✓

This measure was redefined in FY 2011.

[1] Targets and results through FY 2010 are for original measure, Average Daily Airport Capacity at the 35 OEP Airports.

[2] Targets and results for FY 2011 and FY 2012 are for redefined measure—OEP airports were replaced with Core Airports.

[3] Preliminary estimate until January 2012.

AVERAGE DAILY AIRPORT CAPACITY (7 METRO AREAS)

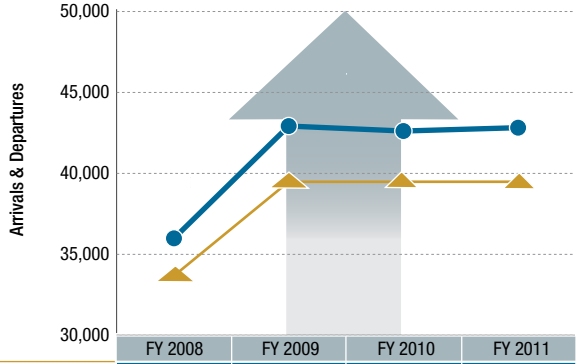
Achieve an average daily airport capacity for the seven major metropolitan areas of 39,484 arrivals and departures per day by FY 2009, and maintain through FY 2013.		
FY 2011 Target		Achieve an average daily airport capacity for the seven major metropolitan areas of 39,484 arrivals and departures per day.
FY 2011 Result	✓	**42,824** *(Preliminary estimate)*
Public Benefit		The public benefits from increased capacity by experiencing a decrease in delays and improved on-time performance.

For FY 2011, the selected seven metropolitan areas are both home to both the most congested airspace in the Nation and the airports with the greatest constraints on expansion. Nevertheless, the results through September 2011 are well above the target. Fewer construction projects and better than expected weather have contributed the success of this metric. The seven metropolitan areas measured in FY 2011 were: New York, Philadelphia, Charlotte, Chicago, Las Vegas, the Los Angeles Basin, and the San Francisco Bay Area.

The seven major metropolitan airports face training and education issues similar to those at the Core Airports. We continue to educate tower and traffic management personnel on the importance of the accuracy of recording arrival and departure rates. Several of the facilities are improving their accuracy in recording these rates as they gain more experience in that area. In the past, many facilities paid little attention to the accuracy of their arrival and departure rates and entered them into the Command Center Operational Information System. We are continuing efforts to ensure consistent and accurate data are provided by all airports. This effort has included ongoing education for air traffic and traffic management personnel, as well as consistent monitoring of capacity trends at these airports.

Continued deployment of the Traffic Management Advisor (TMA) decision support tool is also expected to optimize the flow of aircraft into capacity-constrained airports.

AVERAGE DAILY AIRPORT CAPACITY (7 METRO AREAS)
Arrivals & Departures



	FY 2008	FY 2009	FY 2010	FY 2011
ACTUAL	35,990	42,925	42,618	42,824[2]
TARGET[1]	33,676	39,484	42,618	39,484
TARGET ACHIEVED?	✓	✓	✓	✓

This measure was redefined in 2008.

[1] For FY 2006 and FY 2007, the 7 Metro Areas included different airports, and the targets were revised for each year. Since FY 2008, the airports and targets have not changed.

[2] Preliminary estimate until January 2012.

ADJUSTED OPERATIONAL AVAILABILITY

Sustain adjusted operational availability at 99.70% for the reportable facilities that support the Core Airports through FY 2013.		
FY 2011 Target		Sustain adjusted operational availability at 99.70% for the reportable facilities that support the Core Airports.
FY 2011 Result	✓	**99.71%** *(Preliminary estimate)*
Public Benefit		The public realizes an indirect benefit from the Adjusted Operational Availability Metric. Airline on-time performance is affected by the airport and en-route capacity, which are directly impacted by the availability of the equipment and facilities supporting that capacity. The safety of air travelers is dependent on navigational and communications equipment, and redundant back-up systems.

NAS performance is directly affected by the availability of the equipment needed to provide service. Loss of radar or communications equipment capability in the given area affects the speed and number of aircraft that can be handled. The ability of the NAS to continually provide guidance is crucial, and it affects both safety and capacity.

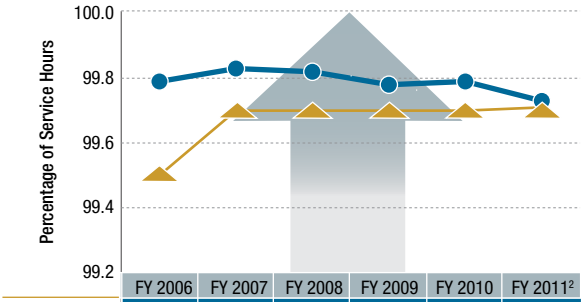
We met the target for FY 2011. Beginning in FY 2011, the 35 OEP airports were replaced with Core Airports. Annual targets remain unchanged. The target for this measure is expected to remain at 99.70 percent. Our Air Traffic Organization analyzes various performance data to increase or maintain a targeted level of performance and determine metric goals in order to provide appropriate safety and capacity outcomes for the flying public.

Currently, the target performance level is being met due to adherence to FAA maintenance policies and procedures for NAS monitoring, control, maintenance, and restoration. This strict adherence optimizes service availability for FAA's Core Airports. Most of the unscheduled downtime for the fiscal year was due to equipment and weather outages.

However, aging infrastructure and reduced resources for maintenance are affecting our ability to support capacity needs. As a result, our actual performance is decreasing. We expect this trend to continue if resources do not increase.

ADJUSTED OPERATIONAL AVAILABILITY[2]

Percentage of Service Hours for Facilities Supporting the Core Airports



	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011[2]
ACTUAL	99.79%	99.83%	99.82%	99.78%	99.79%[1]	99.71%[3]
TARGET	99.50%	99.70%	99.70%	99.70%	99.70%	99.70%
TARGET ACHIEVED?	✓	✓	✓	✓	✓	✓

[1] Final result revised from preliminary estimate of 99.80% in FY 2011.

[2] For FY 2011, measure revised—35 OEP airports were replaced with Core Airports. Annual targets were unchanged.

[3] Preliminary estimate until January 2012.

OBJECTIVE: Increase Reliability and On-Time Performance of Scheduled Carriers

NAS ON-TIME ARRIVALS

Achieve a NAS On-Time Arrival rate of 88.00% at the Core Airports and maintain through FY 2013.	
FY 2011 Target	Achieve a NAS On-Time Arrival rate of 88.00% at the Core Airports.
FY 2011 Result	**90.26%** *(Preliminary estimate)*
Public Benefit	This measure helps the flying public reach their intended destinations on time.

On-time performance is a measure of FAA ability to deliver services. A major liability of using air carriers' scheduled on-time performance data as a metric is that they contain information about flight delays caused by incidents outside of our control. However, the air carriers have been able to supply the cause of the flight delay, by flight, since June 2003. By removing delays not attributable to the FAA, we have a more accurate and equitable method of measuring our performance.

We met this target for FY 2011. Weather, airline scheduling practices, runway construction and maintenance as well as ramp and airport congestion all contributed to our ability to achieve this target.

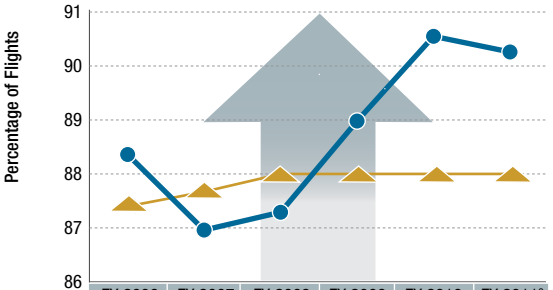
The measures of our average daily airport capacity for both Core Airports and seven metro areas (see pages 53–54) contributed significantly to the success of the NAS on-time target. Both measures are exceeding expectations. Additional runways, improved arrival and departure accuracy, and better than expected weather this fiscal year have all contributed to decreased congestion and improved on-time performance. Improved on-time performance may also be attributed to the drop in scheduled and unscheduled operations in many major markets. In turn, this drop in turn has led to less congestion in the NAS and less pressure on the Air Traffic Control System, resulting in shorter departure and arrival times. In addition, new technologies, such as the Traffic Management Advisor decision support tool, have contributed to more efficient arrival and departure performance at several large airports.

In FY 2012, we plan to continue our focus on our Greater Capacity measures. We expect higher levels of operations to return once the economy recovers. At that time, we will need to curtail the expected increase in congestion.

We anticipate on-time performance to continue improving, based on lower traffic levels and the movement toward NextGen technologies, such as time-based metering and ADS-B.

NAS ON-TIME ARRIVALS

Percentage of Flights No More than 15 Minutes Late



	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011[2]
ACTUAL	88.36%	86.96%	87.29%	88.98%	90.55%[1]	90.26%[3]
TARGET	87.40%	87.67%	88.00%	88.00%	88.00%	88.00%
TARGET ACHIEVED?	✓	✗	✗	✓	✓	✓

[1] Final result revised from preliminary estimate of 90.33% in FY 2011.

[2] For FY 2011, measure revised—35 OEP airports were replaced with Core Airports. Annual targets were unchanged.

[3] Preliminary estimate until January 2012.

OBJECTIVE: Address Environmental Issues Associated with Capacity Enhancements

NOISE EXPOSURE

Reduce the number of people exposed to significant noise by 4% compounded annually through FY 2013 from the calendar year 2005.[1]		
FY 2011 Target		Reduce the number of people exposed to significant noise to 19.28% below the calendar year 2005.
FY 2011 Result	✓	**-38.31%** *(Preliminary projection.)*
Public Benefit		Public benefit is reduced exposure to unwanted aircraft noise and increased capacity, reducing airport congestion and delays.

1 The previous target of 1% per year remained in effect from 2005-2006. The 4% compounded rate of reduction began in 2007.

Although building new runways is the best way to increase capacity, communities and local governments are reluctant to build them if they bring increased aircraft noise exposure. By mitigating and reducing exposure to excessive noise, we can help communities accept more runways in their areas.

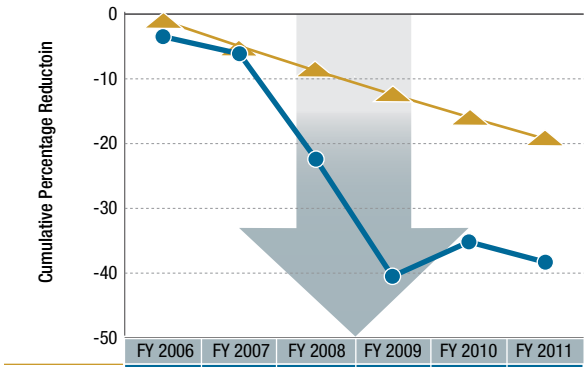
We met our target for FY 2011. Air carrier fleet and operational changes have driven the significant reduction in noise exposure since the base year of 2005. Carriers continue to retire older, less fuel-efficient aircraft that tend to produce more noise. In addition, passenger demand continues to be well below 2005 levels, resulting in decreased air traffic. Other external factors include providing FAA with the authority and funding to accelerate the implementation of new aircraft emissions and noise technology. These programs help foster the type of fleet and performance change required to meet our current target.

NextGen technologies and our broad array of noise mitigation approaches allow us to make significant improvements to aviation noise exposure. We continue to pursue a program of aircraft noise control, in cooperation with the aviation community and local governments, through source noise reduction, soundproofing, buyouts of homes and other noise-sensitive buildings near airports, operational flight control measures, and land use planning strategies. Although we are authorized to provide funds for airport noise compatibility projects, each project must be locally sponsored by the airport responsible for the noise and approved by the FAA. In FY 2009, we partnered with NASA to develop the Continuous Lower Energy, Emissions, and Noise (CLEEN) program. The goal of this five-year program is to introduce CLEEN technologies into production aircraft in the 2015-2017 timeframe.

We arrived at the noise exposure target by analyzing the historical rate of change of noise exposure and taking into account recent trends and long-term projections of air traffic demand. The target will continue to be revised as we take a more integrated approach to environmental regulation by assessing the costs-benefit ratio of dealing with noise, local air quality, and greenhouse gas emissions. We are currently developing new software called the Aviation Environment Design Tool (AEDT), which will more accurately model and predict aviation noise and emissions. AEDT will be used for the final estimate of the FY 2011 noise exposure result due in May 2012.

NOISE EXPOSURE[1]

Cumulative Percentage Reduction from Baseline



	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ACTUAL	-3.48%	-6.12%	-22.40%	-40.49%[1]	-35.17%[2]	-38.31%[3]
TARGET	-1.00%	-4.96%	-8.76%	-12.41%	-15.91%	-19.28%
TARGET ACHIEVED?	✓	✓	✓	✓	✓	✓

[1] Original final result of -42.53% revised in FY 2011 due to correction in model.

[2] Final result revised from preliminary estimate of -43.79% in FY 2011.

[3] Projection to be finalized in May 2012.

AVIATION FUEL EFFICIENCY

Improve aviation fuel efficiency by 2% per year, through FY 2015, as measured by the calendar year 2010 fuel burned per revenue mile flown, relative to the calendar year 2000 baseline.		
FY 2011 Target		Improve aviation fuel efficiency by 12%, as measured by the calendar year 2010 fuel burned per revenue mile flown, relative to the calendar year 2000 baseline.
FY 2011 Result	✓	-14.50%
Public Benefit		Today's aircraft are up to 70% more efficient than early commercial jet aircraft. However there is growing concern over aviation's impact on the environment and public health. Aviation is currently viewed as a relatively small contributor to those emissions that have the potential to influence air quality and global climate. Carbon dioxide emissions are a primary greenhouse gas and are directly related to the fuel burned during the aircraft's operation. As air traffic grows, this contribution will increase without improvements in technology and airspace management. This measure supports the development of these improvements to reduce aviation's impact on the environment and thereby improve public health and welfare. In addition, more fuel efficient aircraft should contribute to improving the financial well-being of commercial airlines and a growing economy.

We monitor improvements in aircraft and engine technology, operational procedures and enhancements in the airspace transportation system by measuring and tracking fuel efficiency from aircraft operations. This information makes possible an assessment of aircraft operations' influence on reducing aviation's emissions contribution.

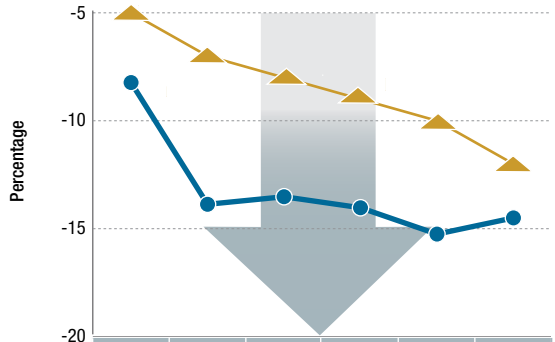
FAA exceeded the FY 2011 fuel efficiency target by 2.5 percent as measured by the calendar year 2010 rate of fuel burned per revenue mile flown, relative to the calendar year 2000 baseline.

Our FY 2011 performance demonstrates continued progress in maintaining efficiency of commercial aircraft operations within the airspace system, thereby minimizing environmental impact. A combination of factors is responsible for our meeting our target. These factors include better aircraft fleet performance, low air traffic growth, and air traffic management of the airspace system. Aircraft fleet performance is still improving due to efforts by airlines to minimize use of aircraft that are less efficient. Air traffic growth has not yet returned to the levels previously seen. Therefore, from a system standpoint, there is less likelihood of delays and congestion, which would influence this performance measure in a negative manner. There was a noticeable increase in flights with stage lengths of less than 500 nautical miles. Aircraft that serve these stage lengths typically have slightly better efficiencies (not accounting for number of passengers carried). Overall economic conditions, in particular those that impact commercial airline operations, have some effect on this outcome.

Performance is also heavily dependent on commercial airline operating procedures and day to day operational conditions. This includes the condition of the airline's operating fleet and route assignments, air traffic conditions, weather, airport operating status, congestion in the system, and any disruptions that introduce delay in scheduled flights. For example, a major sustained disruption or enhancement in air traffic or a significant shift in commercial operations amongst airlines, including changes in fleet composition and missions, could profoundly affect performance target achievement.

AVIATION FUEL EFFICIENCY[1]

Cumulative Percentage Reduction from Baseline



	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ACTUAL	-8.23%	-13.87%	-13.52%	-14.03%	-15.25%	-14.50%
TARGET	-5.00%	-7.00%	-8.00%	-9.00%	-10.00%	-12.00%
TARGET ACHIEVED?	✓	✓	✓	✓	✓	✓

[1] Measure revised from reduction of a three-year moving average from a three-year average baseline to single year reductions. Prior year results from FY 2007 have been recalculated.

We work with the National Aeronautics and Space Administration (NASA) to conduct research and development in order to identify engine and airframe technologies that offer potential for reducing fuel burn and emissions. The Aerospace Industries Association works with us and NASA to commercialize technologies from the research phase and develop operational procedures to address environmental impacts. The Air Transport Association works with us to identify fleet and air traffic procedural changes that improve fuel efficiency.

FAA's pursuit of the CLEEN Technology Program accelerates the development of fuel efficient technologies so they are deployed to the commercial fleet sooner than normal market forces might allow. The goal of this program is to introduce CLEEN technologies into production aircraft in the 2015-2017 timeframe.

The development and deployment of NextGen technologies allow us to continue making improvement to aviation fuel efficiency across the NAS. However, since the inception of this performance measure, we have anticipated a degradation of fuel efficiency as fleet turnover lessens, technology improvements wane, and air traffic starts to grow again. Thus a leveling-off in fuel efficiency, such as we have seen between FY 2007 and FY 2011, is not unexpected. There are several interdependencies in the overall system. From an FAA internal perspective, it is difficult to ascertain the degree to which improvements in system fuel efficiency are attributable to air traffic management enhancements, which would be the factor most related to FAA's internal events and activities.

INTERNATIONAL LEADERSHIP

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

We advance safety and efficiency around the world through International Leadership. We are able to take on this task with the global aviation community through expanded technical assistance to other civil aviation authorities and continued emphasis on bilateral agreements to help harmonize aviation safety and environmental quality around the world. Today, we have the operational responsibility for about half of the world's air traffic. We facilitate direct or indirect technical assistance to 150 countries around the world to help them improve their aviation systems.

While safety is our top priority domestically and internationally, we cannot overlook the impact global aviation has on trade and commerce. Aviation systems within and among nations are lifelines to the future, free trade, accelerated economic growth, and greater cultural exchange. Seamless global aviation is critical to an increasingly global economy that hinges on efficient supply chains and just-in-time manufacturing. This global harmonization of aviation systems will also increase the safety, capacity and efficiency of international aviation not only for U.S. carriers, but also for U.S. citizens traveling on foreign flag air carriers.

FY 2011 INTERNATIONAL LEADERSHIP PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2011 Target	FY 2011 Result	FY 2011 Status	FY 2012 Target
Global Safety Enhancements Prioritize efforts to work with foreign aviation entities and industry in Africa, the Americas, Asia, Europe and the Middle East to adopt at least one U.S. aviation safety best practice per region each year.	3	25	✓	3
International Aviation Development Projects By 2014, arrange commitment for external funding for at least 35 aviation development projects (7 per year).	7	12	✓	7
Aviation Leaders By 2014, work with at least 18 countries or regional organizations to develop aviation leaders to strengthen the global aviation infrastructure.	4	10	✓	7
NextGen Technologies By FY 2014, expand the use of NextGen performance-based systems and concepts to five priority countries.	1	2	✓	1

✓ Goal Achieved
✱ Goal Not Achieved

OBJECTIVE: Promote Improved Safety and Regulatory Oversight in Cooperation with Bilateral, Regional, and Multilateral Aviation Partners

GLOBAL SAFETY ENHANCEMENTS

Prioritize efforts to work with foreign aviation entities and industry in Africa, the Americas, Asia, Europe and the Middle East to adopt at least one U.S. aviation safety best practice per region each year.		
FY 2011 Target		Promote U.S. aviation safety best practices globally by recommending and demonstrating at least one aviation safety best practice in each of FAA's three international regions.
FY 2011 Result	✓	25
Public Benefit		Improved safety and regulatory oversight in cooperation with bilateral, regional, and multilateral aviation partners. Safer foreign aviation system lowers the probability of harm to U.S. citizens traveling abroad, and supports U.S. economic interests across multiple industries related to aviation. Promoting the standardization of safety programs/rules enables all travelers and carries the advantage of operating on same standards.

For FY 2011, we replaced the Commercial Aviation Safety Team (CAST) Safety Enhancements measure, which tracked the adoption of safety enhancements by China beginning in FY 2007. The new measure is broader and more closely aligned with a global safety enhancement effort, in contrast to the previous specific measures which focused on just one country.

We met this target for FY 2011. This measure allowed us to show that we can demonstrate to foreign countries the benefits of adopting U.S. aviation safety best practices globally while we respect the sovereign status of these countries. By working with foreign entities and industry globally, we can continue to enhance our international leadership role by demonstrating and recommending these practices. We sought to identify leading causes of accidents worldwide by working with FAA organizations, identifying best practices for safety enhancement that can be used to mitigate the risk of identified accidents, and meeting with appropriate foreign civil aviation authorities to increase awareness and encourage the adoption of safety enhancements.

The target of "three aviation safety best practices for safety enhancements" per year is both an ambitious and a realistic goal. Achieving this performance measure required extensive coordination and cooperation of activities and events with other United States Government agencies involved, foreign government officials, and various FAA organizations.

The recommended safety best practices were defined and provided to the organizations or individuals responsible for leading the implementation. These safety best practices are:

Middle East
- GCC Helicopter Safety Team Assistance
- Promote Civil Military Cooperation

Russia/CIS
- Support Russian/CIS CAST Development Efforts
- Arctic Search and Rescue
- Regional Support for Commonwealth of Independent States (CIS)
- Russian American Air Traffic Control Cooperation

South Africa
- Sub-Saharan Safety Data Sharing

Nigeria
- Wildlife Hazards MGMT Workshop

European Union
- Exchange of Diplomatic Notes on US/European Community Aviation Safety Agreement for Entry Into Force

ICAO-Colegio Official de Pilotos de la Aviacion Comercial (COPAC), Spain
- ICAO/COPAC International Safety Seminar

Mongolia
- Memorandum of Agreement (MOA) and associated technical assistance agreements

Bangladesh
- Memorandum of Agreement (MOA) and associated technical assistance agreements

China
- Shadow evaluation program
- Civil Aviation Development Forum

Japan
- Shadow evaluation program
- ICAO/WMO Asia/Pacific Meteorology/Air Traffic Management(MET/ATM) Seminar

Korea
- Shadow evaluation programs for normal category aircraft
- Flight Safety Seminar

Micronesia
- FAA Micronesia Airport Improvement Program Workshop

Thailand
- CANSO Asia-Pacific Safety Seminar
- Asia Pac ICAO Flight Plan - ATS Seminar
- Seamless ATM Seminar August 2011

India
- PBN workshop and PBN implementation seminar

Mexico
- Performance Based Navigation (PBN) System Seminar

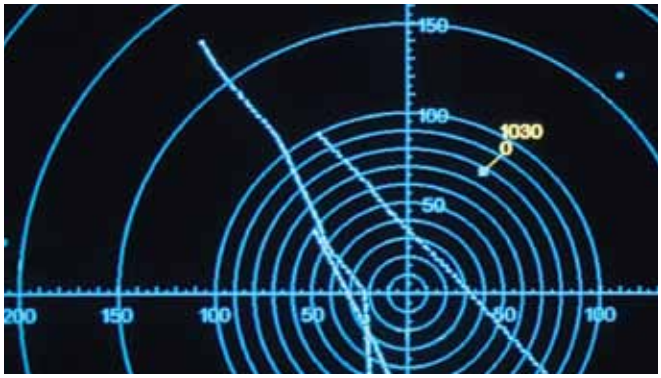
South America
- Performance Based Navigation System (PBN) Seminar

We will continuously monitor the implementation of recommended action plans by the countries to ensure necessary steps are being taken. Although we were able to exceed our target for FY 2011, we do not intend to raise our FY 2012 target. Due to resource constraints, it may be difficult to independently verify implementation of the recommended best practices intended to improve aviation safety. This is especially true since the FAA has no control over the legal processes of other countries and continues to struggle to reach resolution in these areas.

GLOBAL SAFETY ENHANCEMENTS
Number of Safety Best Practices Promoted for Foreign Aviation Entities

Fiscal Year	Target	Actual Performance	Target Achieved?
2011	3	25	✓

This is a new measure for FY 2011



OBJECTIVE: Promote Seamless Operations Around the Globe in Cooperation with Bilateral, Regional, and Multilateral Aviation Partners.

INTERNATIONAL AVIATION DEVELOPMENT PROJECTS

By 2014, arrange commitment for external funding for at least 35 aviation development projects (7 per year).		
FY 2011 Target		Arrange external funding commitments for at least 7 international aviation development projects.
FY 2011 Result	✓	12
Public Benefit		Promulgation of FAA safety and efficiency practices in the developing countries; leveraging of FAA expertise and resources; avoidance of duplication of assistance in the international aviation donor community; and increased safety for U.S. citizens whenever they travel.

Often countries that could benefit the most from FAA technical assistance are the least able to afford it. This measure allows us to showcase the benefits of the International Aviation Development (IAD) program, demonstrating importance of work carried out and the number of countries and regional organizations aided.

The FAA External Funding Program was established to identify non-FAA funding for international aviation projects. There are three categories of sources: 1) U.S. Government agencies that provide foreign economic assistance, 2) Multilateral development banks that provide loans to developing countries, and 3) Foreign economic assistance agencies of foreign governments.

The program enables FAA to leverage its small staff and funding resources to support beneficial aviation projects throughout the world. These include, but are not limited to, infrastructure and capacity building projects relating to aviation safety, air traffic management, and airports. For example, funding has been secured to bring countries into compliance with ICAO safety standards; develop regional safety oversight organizations, support public and private partnerships, and rebuild aviation infrastructure.

Our international team established a robust outreach program in conjunction with U.S. Government organizations that provide development financing. The international team also trained international FAA staff (managers, desk officers, and senior representatives in-country) in how to identify viable projects. The staff worked closely with funding organizations to write convincing grant proposals, follow funding guidelines, and secure approval for the funds needed for these projects.

We met this target for FY 2011. We successfully arranged external funding commitments for the following projects:

Asia Pacific Region

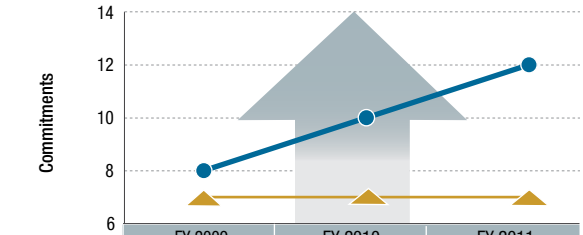
- **China**
  - U.S. – China Aviation Summit
  - U.S. – China ACP General Aviation Grant
  - U.S. – China ACP Training Grants
- **India**
  - Ground Based Augmentation System Certification Training
  - Technical, Management, Operational Development Training
- **Vietnam**
  - Asia Pacific Economic Cooperation Airport Evaluation Site Visit Program

Europe, Africa, Middle East Region

- **Nigeria**
  - Wildlife Hazard Workshop

INTERNATIONAL DEVELOPMENT PROJECTS

Number of Commitments from External Sources for Foreign Aviation Projects



	FY 2009	FY 2010	FY 2011
ACTUAL	8	10	12
TARGET	7	7	7
TARGET ACHIEVED?	✓	✓	✓

This was a new measure in FY 2009.

- **Sub-Saharan Africa**
  - Review of Aeronautical Meteorological Distance Learning
- **Netherlands**
  - Terminal Area Safety Research
- **Qatar**
  - GSI-OPS, Airworthiness, Training, and Personnel Licensing

Western Hemisphere

- **Various Regions**
  - USTDA Reverse Trade Mission
- **Panama**
  - Tocumen International Airport Strategic Plan

We will continue to support external funding programs. While we met the target this year slightly ahead of the end of the fiscal year, we do not plan to increase our target for FY 2012 because we continue to be concerned about the willingness and capacity of international donor organizations, including U.S. Government organizations, to fund development projects given the current global economic situation. To continue to achieve this goal, we need foreign civil aviation authorities to accept and use grant funding expeditiously.

For FY 2012, we plan to survey donors to determine if aviation funding has been provided previously. We will develop lists of donors with project types and funding mechanisms. Also, we will complete outreach to selected donors to determine the parameters of future aviation funding.

AVIATION LEADERS

By 2014, work with at least 18 countries or regional organizations to develop aviation leaders to strengthen the global aviation infrastructure.	
FY 2011 Target	Work with at least 4 countries to develop aviation leaders in FY 2011.
FY 2011 Result	✓ 10
Public Benefit	As foreign aviation leaders are exposed to FAA best practices, they are better able to effect improvements within their civil aviation authorities. Success in meeting this target allows FAA to dedicate its resources to working with countries that learn how to independently meet international aviation standards.

To keep our strategic vision representative of our international aviation leadership, this *Flight Plan* measure showcases opportunities we arrange for foreign civil aviation leaders to strengthen their aviation leadership skills through participation in specific programs. For example, the Department of State's International Visitor Leadership Program, FAA's Executive Management Development Training, and management courses at the FAA Academy are all venues providing developmental opportunities for potential and current civil aviation leaders. Working with foreign aviation professionals to develop solid aviation leadership skills is an integral component of development of civil aviation administrations worldwide.

In FY 2011, we exceeded our target by working with the following 10 countries and regional organizations:

Asia Pacific Region

- East Asia and the Pacific (Cambodia, Indonesia, Malaysia, China, Philippines, Singapore, Thailand, Vietnam), Korea, Indonesia, Thailand and Vietnam

Western Hemisphere Region

- Central America (Colombia, Costa Rica, Dominican Republic, Guatemala, Mexico, Panama, El Salvador) and Brazil

Africa, Europe, and Middle East Region

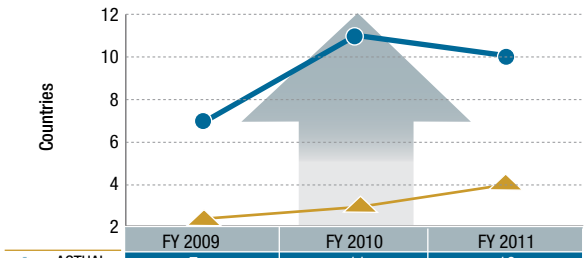
- Russia, United Kingdom, and Iceland

Shared goals between FAA and the U.S. State Department for developing the next generation of aviation leaders has worked to the advantage of meeting and exceeding this performance measure in FY 2011. Staff in Washington, D.C. worked diligently with program planners at the State Department to arrange appropriate meetings and site visits to FAA facilities to tailor each program to the needs of participants.

Although we are currently able to exceed our numerical target, we do not plan to increase the FY 2012 target because without continued funding for these programs it will be difficult to continue support. The FAA and State Department both expect that funding for these programs will be slashed in FY 2012 and beyond given the tight U.S. Government budget situation. The FAA will continue to pursue programs for developing Asian leaders to the extent possible given the new tighten budget environment.

AVIATION LEADERS

Number of countries worked with to developmehnt aviation leaders



	FY 2009	FY 2010	FY 2011
ACTUAL	7	11	10
TARGET	2	3	4
TARGET ACHIEVED?	✓	✓	✓

This was a new measure in FY 2009.

NEXTGEN TECHNOLOGIES

By FY 2014, expand the use of NextGen performance-based systems and concepts to five priority countries.		
FY 2011 Target		Expand the use of Next Generation Air Transportation System (NextGen) performance-based systems to one priority country.
FY 2011 Result	✓	2
Public Benefit		Global harmonization of NextGen components (influencing others to investigate NextGen solutions) will incrementally elevate global reliance on U.S. aviation ground and airborne technologies and procedures. This will in turn, over time, standardize a higher percentage of the global air traffic control system with that of the U.S. NAS. The result will be a more familiar, safe, efficient and environmentally friendly operating environment around the world for U.S. citizens traveling abroad on U.S. or foreign air carriers.

We can continue to enhance our international leadership role and ensure harmonization of U.S. NextGen technologies, procedures, and concepts with global, regional and state-level air traffic management (ATM) modernization efforts by working with international civil aviation authorities, organizations and states. These same NextGen technologies, procedures, and concepts are currently being explored and implemented in the U.S. NAS and are critical to the success of the NextGen to handle the projected demands on the U.S. airspace system in the future.

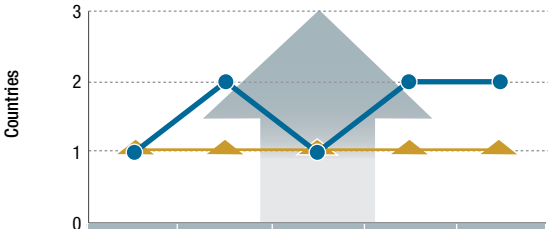
We met our target for FY 2011. We signed a Joint Statement with Aeronautical Radio of Thailand, Limited officially committing that air navigation service provider to the support and promotion of the NextGen-focused initiatives within the Asia and Pacific Initiative to Reduce Emissions (ASPIRE). In addition, the FAA and European Union (EU) signed a new Memorandum of Cooperation and cooperative Annex 1 agreement committing the conglomeration of European States to working more closely with the FAA to ensure full interoperability of the U.S. NextGen and European SESAR programs.

Activities to meet this performance target have been ongoing throughout the year to fully coordinate agreements and joint statements with all stakeholders prior to signature and commitment. Related to ASPIRE, the partnership now has six full-time members, each with supporting international air carriers, all working to expand the use of efficiency/capacity tools in the Asia and Pacific regions. The agreement with the EU on NextGen/SESAR harmonization is the first of its kind and will start a process to identify key areas of divergence where the United States and Europe need to increase collaboration in order to achieve the desired level of system and airborne interoperability.

There is no budget associated with this performance target as the global support that the ATO provides in support of NextGen is assumed by the specific program offices or paid for by international civil aviation authorities or air navigation service providers through the execution of reimbursable bilateral technical assistance agreements. However, political will, cultures, foreign policy, and other government budgets can be significant factors in the success of any NextGen performance target. This particular performance target will not continue into FY 2012. *Destination 2025* is replacing the *FY 2009–FY 2013 Flight Plan* and has newly established performance measures.

NEXTGEN TECHNOLOGIES

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



	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ACTUAL	1	2	1	2	2
TARGET	1	1	1	1	1
TARGET ACHIEVED?	✓	✓	✓	✓	✓

This was a new measure in FY 2007.

ORGANIZATIONAL EXCELLENCE

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

Our central management strategy for achieving organizational excellence is to deliver the results described in the *Flight Plan* and to refine our focus on Department of Transportation's (DOT) strategic initiatives. Efforts this year focused on information security, program management, and creation of a high performance workforce with the skills and abilities required to deliver NextGen technologies.

Maintaining organizational excellence means addressing several ongoing challenges. As threats from hackers and cyber terrorists grow, agency employees are challenged to push past the status quo and develop new solutions to emerging information technology threats. During FY 2011, the agency instituted many new practices that have warded off potential security threats and have kept information safe and secure.

We also remained vigilant in managing the modernization of the NAS to a satellite-based system. In FY 2011, we achieved our cost and schedule goals, tracking a total of 50 milestones against 34 different programs. Of the 50 milestones, 47 (94 percent) were completed on or ahead of their scheduled dates. All of our major system investments are within 10 percent variance of current baseline total budget estimate at completion. We continue to deploy new systems across the country and to incur fewer cost overruns.

The people of the FAA are our greatest strength. The need to attract the best-qualified employees and to develop, motivate, and retain our workforce is essential. In FY 2011, we continued to draw on the talent and ideas of our employees to move us into the future. We reaffirmed our commitment to making the FAA the best place to work and have made great progress toward developing a more collaborative culture.

FY 2011 **ORGANIZATIONAL EXCELLENCE** PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2011 Target	FY 2011 Result	FY 2011 Status	FY 2012 Target
OPM Hiring Standard By FY 2010, 80% of FAA external hires will be filled within OPM's 45-day standard for government-wide hiring.	80.00%	83.85%	✓	80.00%
Reduce Workplace Injuries Reduce the total workplace injury and illness case rate to no more than 2.44 per 100 employees by the end of FY 2011, and maintain through FY 2013.	2.44 per 100	1.57 per 100[1]	✓	2.44 per 100
Grievance Processing Time Reduce grievance processing time by 30% (to an average of 102 days) by FY 2010 over the FY 2006 baseline of 146 days, and maintain the reduction through FY 2013.	-30.00%	-69.87%	✓	-30.00%
Air Traffic Controller Workforce Plan Maintain the air traffic control workforce at, within two percent above or below, the projected annual totals in the Air Traffic Controller Workforce Plan.	+/- 2% of annual target	0.01%	✓	+/- 2% of annual target
Aviation Safety Critical Positions Workforce Plan Maintain the aviation safety workforce within one percent of the projected annual totals in the Aviation Safety Workforce Plan.	+/- 1% of annual target	0.86% above annual target	✓	+/- 1% of annual target
Cost Control Organizations throughout the agency will continue to implement cost efficiency initiatives such as: ■ $20 million in savings for strategic sourcing for selected products and services; ■ Reduction of $30 million in Information Technology operating costs in FY 2011.	90% of Targeted Savings	111.32% of Targeted Savings	✓	90% of Targeted Savings
Unqualified Audit Opinion Obtain an unqualified opinion on the agency's financial statements (unqualified audit with no material weakness) each fiscal year.	Unqualified Audit Opinion with No MW	Unqualified Audit Opinion with No MW	✓	Unqualified Audit Opinion with No MW
Critical Acquisitions on Budget In FY 2009, 90% of Major System Investments are within 10% variance of current baseline total budget estimate at completion (BAC).	90.00%	100%	✓	90.00%
Critical Acquisitions on Schedule In FY 2009, 90% of Major System Investments selected annual milestones are achieved.	90.00%	94.00%	✓	90.00%
Information Security Achieve zero cyber security events that disable or significantly degrade FAA mission critical Line of Business systems.	0	0	✓	0
Continuity of Operations Exceed Federal Emergency Management Agency continuity readiness levels by 5%.	5% ahead of requirements	6% ahead of requirements	✓	5% ahead of requirements

1 Projection to be finalized in December 2011.
✓ Goal Achieved
✖ Goal Not Achieved

OBJECTIVE: Implement Human Resource Management Practices to Attract and Retain a Highly Skilled, Diverse Workforce and Provide Employees a Safe, Positive Work Environment.

OPM HIRING STANDARD

By FY 2010, 80% of FAA external hires will be filled within OPM's 45-day standard for government-wide hiring.		
FY 2011 Target		By FY 2010, 80 percent of FAA external hires will be filled within OPM's 45-day standard for government-wide hiring.
FY 2011 Result	✓	83.85%
Public Benefit		Timely applicant selections are being made for FAA jobs. By use of this standard the lengthy hiring process is decreased and applicants are notified in a timely way of their hiring status with the FAA. Mission critical positions are filled with quality candidates who may otherwise be selected by private industry.

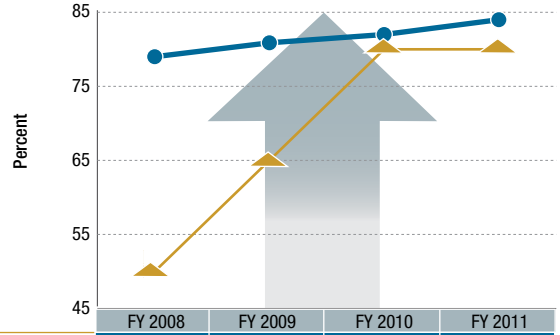
Throughout Government and industry, there is fierce competition to attract a skilled workforce. The FAA must hire capable staff with the requisite competencies in a timely manner. Using the Office of Personnel Management (OPM) 45-day hiring standard as an organizational excellence performance target,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

OPM developed the OPM 45-day hiring standard as a Government-wide performance standard. The 45 days are defined as beginning one day after a vacancy announcement closes and ending the day that a tentative or firm job offer is made to an applicant. This measure applies to all occupational series serviced through the automated online application system—Automated Vacancy Information Access Tool for Online Referral (AVIATOR). The system tracks the number of business days from the closing date of the announcement to the date that a tentative or firm offer is made. At the end of the fourth quarter of FY 2011, 83.85 percent of external selections through AVIATOR were within the 45-day hiring standard.

Recognizing that communication among all stakeholders is vital, we at the FAA monitor the hiring process and work with selecting officials. The agency holds selecting officials accountable for using documented FAA merit-hiring principles during the selection process. Audits are used to ensure selections have been made in good faith and in accordance with these principles. Process efficiency efforts include an internal review and emphasis on data integrity, resulting in a more standardized and documented personnel data-collection process. These procedures, along with continuing assessment and correction of process barriers, contributed to our success in achieving the FY 2011 target for this performance goal.

OPM HIRING STANDARD

Percentage of FAA External Hires Filled within OPM's 45-day Standard



	FY 2008	FY 2009	FY 2010	FY 2011
ACTUAL	79%	80.88%	82%	83.85%
TARGET	50%	65%	80%	80%
TARGET ACHIEVED?	✓	✓	✓	✓

This was a new measure in FY 2008.

REDUCE WORKPLACE INJURIES

Reduce the total workplace injury and illness case rate to no more than 2.44 per 100 employees by the end of FY 2011, and maintain through FY 2013.		
FY 2011 Target		Reduce the total workplace injury and illness case rate to no more than 2.44 per 100 employees.
FY 2011 Result	✓	**1.57 per 100** *(Preliminary projection.)*
Public Benefit		Reducing injuries directly improves FAA workforce efficiency. The public benefits indirectly since employee safety contributes to flying safety.

In 2011, we continued to emphasize worker safety through training, inspections, hazard abatement, and program evaluations. These FAA actions were targeted to the most prevalent causes of mishaps, based on analysis of data on effective preventative measures. We are projected to meet our FY 2011 target. We were able to reduce the workplace injury and illness case rate to approximately 1.57, which is lower than the not-to-exceed target of 2.44 cases per 100 employees.

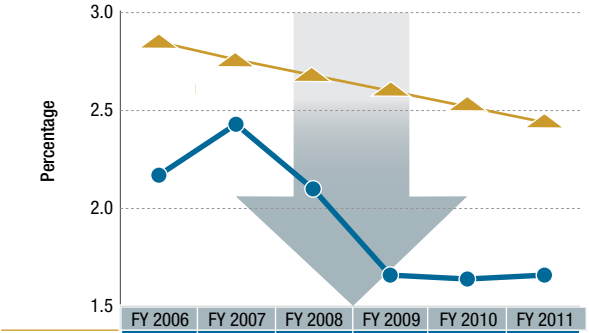
As part of the data analysis, we continue to systematically apply Occupational Safety and Health Administration (OSHA) recordkeeping criteria, which helps identify causes of injury quickly and allows us to target solutions. This helps to mitigate the risk of injury recurrence.

One factor impacting performance was the continued emphasis on automated external defibrillators. These are portable electronic devices that automatically diagnose and treat abnormal heart rhythms with an electrical "shock" that allows the heart to reestablish a normal rhythm. In 2011, we continued offering training to our employees in the use of this lifesaving tool. The tool is in service at most large facilities and portable units are being established for FAA technicians exposed to high voltage. The training diminishes the need to draw on existing OSHA staff time while adding to the confidence of the workforce in the FAA safety program.

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

REDUCE WORKPLACE INJURIES

Injury and Illness Rate per 100 Employees



	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ACTUAL	2.17%	2.43%	2.10%	1.66%	1.64%[1]	1.57%[2]
TARGET	2.85%	2.76%	2.68%	2.60%	2.52%	2.44%
TARGET ACHIEVED?	✓	✓	✓	✓	✓	✓

[1] Final result revised from projection of 1.69% in FY 2011.

[2] Projection from trends—to be finalized in December 2011.

GRIEVANCE PROCESSING TIME

Reduce grievance processing time by 30% (to an average of 102 days) by FY 2010 over the FY 2006 baseline of 146 days, and maintain the reduction through FY 2013.		
FY 2011 Target		Reduce average grievance processing time by 30% to 102 days from the 2006 baseline of 146 days.
FY 2011 Result	✓	-69.87%
Public Benefit		Reducing grievance processing time not only is conducive to better labor-management relations, it also enables faster correction of non-compliance with FAA's collective bargaining agreements, thus contributing to agency efficiency.

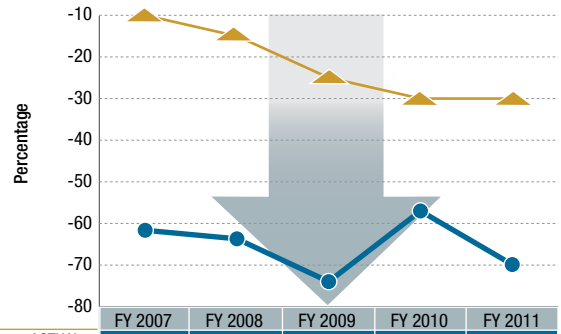
To ensure a smoothly running labor management program, we train our managers and supervisors to handle grievances, negotiations, and contract administrations. We demonstrate a good-faith effort to deal promptly with employee complaints, which benefits the public as it prevents employees' attention to their duties from being distracted by workplace issues.

In FY 2011, we aggressively tracked and processed 5,454 grievances, averaging 44 days in grievance processing time (GPT), for a 69.87 percent reduction from the 2006 baseline. Our continued effort to reduce processing time for grievances supports our objective to resolve employee and union complaints at the lowest level possible, with the lowest level possible of time, resources, and disruption to the work environment and mission.

As GPT continues to decrease year over year, future results may not be as striking. Improvements may eventually be measured in fractions rather than in daily increments. However, it is important that we continue to focus on process management to achieve greater mission efficiency.

GRIEVANCE PROCESSING TIME

Percentage Reduction in Processing Time



	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ACTUAL	-61.64%	-63.69%	-73.97%	-57.00%	-69.87%
TARGET	-10%	-15%	-25%	-30%	-30%
TARGET ACHIEVED?	✓	✓	✓	✓	✓

Baseline established in FY 2006.

AIR TRAFFIC CONTROLLER WORKFORCE PLAN

Maintain the air traffic controller workforce within 2% above or below the projected annual totals in the Air Traffic Controller Workforce Plan.	
FY 2011 Target	Maintain the air traffic controller workforce within 2% above or below the projected annual totals in the Air Traffic Controller Workforce Plan.
FY 2011 Result	✓ 0.01% above projected annual total
Public Benefit	This measure is a tool to help manage the dynamic controller staffing needs of the National Airspace System (NAS). This gives FAA the ability to effectively handle system-wide air traffic demand and provide seamless service to the flying public.

This measure helps to manage the long-predicted wave of retirements of controllers hired in the wake of the 1981 air traffic controller strike. Managing target results will mitigate the risk of another major spike in retirement eligibility in future years. This measure also allows us to maintain controller staffing according to the Controller Workforce Plan submitted to Congress. Managing the dynamic staffing needs of the NAS gives us the ability to handle system-wide air traffic demand effectively and provide seamless service to the flying public.

In FY 2011, we achieved our target with an end-of-year workforce level of 0.01 percent above the projected annual total which is within 2 percent of the target. The measure is monitored on a monthly basis and biweekly teleconferences are held with key stakeholders. Adjustments to agency hiring and FAA Academy classes are made as needed to ensure that hiring goals are met. Facility-by-facility tracking of new air traffic controller hires was accomplished in FY 2011 to ensure that hiring goals were met and the right numbers of new hires were placed at the right facilities.

The attrition rate of the current Air Traffic Controller (ATC) workforce is monitored and hiring goals are adjusted accordingly to meet the overall target Actual on Board (AOB) number. Attrition in FY 2011 has been very close to forecast. The target AOB number declined this year by approximately 280 and will continue to decline by another 290 in FY 2012 to approximately 15,123 controllers by the end of FY 2012.

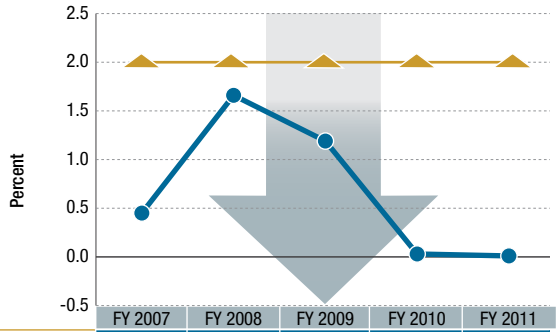
The reductions in AOB reflect reduced advance hiring needs as the trainees we have hired in recent years become fully certified. The air traffic controller workforce plan, *A Plan for the Future: 10-Year Strategy for the Air Traffic Control Workforce 2011-2020*, is on our Web site at **http://www.faa.gov/air_traffic/publications/controller_staffing/media/CWP_2011.pdf**.

The overall size of the applicant pool has dropped due to the expiration of the referral list from the 2009 general public vacancy announcement. However, we will see an increase in the College Training Initiative hiring pool due to an increased number of graduates.

In FY 2011, hiring took place at two Centralized Selection Panels (CSPs). Both CSPs lasted a week and took place in Oklahoma City. The panels consisted of FAA managers from various service areas. The managers reviewed hundreds of applications and made tentative selections and placements for all open ATC positions. Most of the selections in FY 2011 will be used to fill positions in FY 2012. Two CSPs are planned for FY 2012.

AIR TRAFFIC CONTROLLER WORKFORCE PLAN

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



	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ACTUAL	0.45%	1.66%	1.19%	0.03%	0.01%
TARGET	0%-2%	0%-2%	0%-2%	+/-2%	+/-2%
TARGET ACHIEVED?	✓	✓	✓	✓	✓

This was a new measure in FY 2007.

AVIATION SAFETY CRITICAL POSITIONS WORKFORCE PLAN

Maintain the aviation safety workforce within 1% of the projected annual totals in the Aviation Safety Workforce Plan.		
FY 2011 Target		Maintain the aviation safety workforce within 1% of the projected annual totals in the Aviation Safety Workforce Plan.
FY 2011 Result	✓	**0.86% over annual target**
Public Benefit		By ensuring that we are hiring, training, and retaining a highly qualified, high-performing workforce, we are able to maintain and provide the safest aviation system in the world to the flying public.

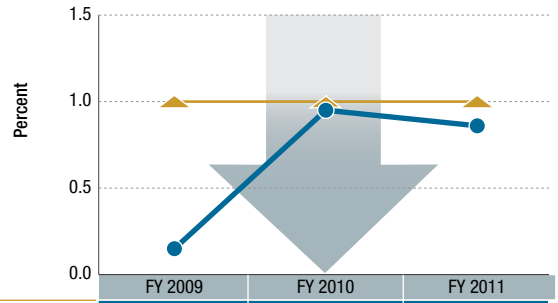
Our workforce is key to FAA success in maintaining the safety of an aviation system that is experiencing the safest period in its history. The primary future workforce challenge will be to hire, train, and retain a highly qualified, high-performing aviation safety workforce that has the skills necessary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

As of September 30, 2011, the Aviation Safety Organization (AVS) had 7,467 permanent positions on board in comparison with the 2011 target level of 7,403 0.86 percent above the annual target. The FY 2011 staffing target represented a change of 6 positions from the FY 2010 end-of-year, full-time, permanent staffing level of 7,473.

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

AVIATION SAFETY CRITICAL POSITIONS WORKFORCE PLAN

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



	FY 2009	FY 2010	FY 2011
ACTUAL	0.15%	0.95%	0.86%
TARGET	+/-1%	+/-1%	+/-1%
TARGET ACHIEVED?	✓	✓	✓

This was a new measure in FY 2009.

OBJECTIVE: Improve Financial Management While Delivering Quality Customer Service

COST CONTROL

Organizations throughout the agency will continue to implement cost efficiency initiatives such as: ■ $20 million in savings for strategic sourcing for selected products and services ■ Reduction of $30 million in Information Technology operating costs in FY 2011		
FY 2011 Target		90% of Targeted Savings
FY 2011 Result	✓	111.32% of Targeted Savings
Public Benefit		The public benefit to this measure is that funds received by the FAA are being used in a more efficient and cost effective manner.

In FY 2011, for the seventh consecutive year, we reached our Cost Control target. Our Cost Control Program exceeded the end-of-year goal by reaching 111.32 percent of estimated cost savings and avoidance. Organizations throughout the FAA implemented at least one cost-savings or avoidance activity. In some cases, organizations offered more than one activity in support of this very important program. These combined activities are expected to accomplish and exceed the goal of 90 percent of estimated savings set at the beginning of the year.

Greater attention was given to monitoring savings throughout the year. These savings come primarily from ATO's Service Area Consolidation, strategic sourcing of selected products and services, and effective management of the Workers' Compensation Program. Additionally, we increased our information technology Savings estimate from $25 million in FY 2010 to $30 million in FY 2011. We increased the goal further in FY 2012 to $35 million. Focusing on IT savings ensures we operate efficiently in this changing environment.

The Cost Control Program is a vibrant and mature program that continues to challenge our agency to be more cost-efficient. Through this program, the FAA will continue to search aggressively for opportunities to curb operating costs.

COST CONTROL
Number of Cost Control Activities Completed per Organization and Achievement of Targeted Savings

Fiscal Year	Target	Actual Performance	Target Achieved?
2006	1 Cost Control Activity per Organization	1 Cost Control Activity per Organization	✓
2007	1 Activity per Organization	1 Activity per Organization	✓
2008	1 Activity per Approved Organization & Achievement of Targeted Savings	1 Activity and Savings	✓
2009	1 Activity per Approved Organization & Achievement of 90% of Targeted Savings	1 Activity and 123.38% of Targeted Savings	✓
2010	1 Activity per Approved Organization & Achievement of 90% of Targeted Savings	1 Activity and 136.36% of Targeted Savings	✓
2011	90% of Targeted Savings	111.32% of Targeted Savings	✓

UNQUALIFIED AUDIT OPINION

Obtain an unqualified opinion on the agency's financial statements (Unqualified Audit with no material weakness) each fiscal year.	
FY 2011 Target	Obtain an unqualified opinion with no material weakness (MW) on the agency's financial statements.
FY 2011 Result	**Unqualified audit opinion with no material weakness**
Public Benefit	The public benefits by being reasonably assured that the agency is being operated in a transparent and fiscally responsible manner.

In FY 2011, we achieved this target for the fourth consecutive year. This measure is an indicator of the quality of our financial accountability. An unqualified audit opinion signals to the public and Congress that the agency is transparent and accountable in how it is using scarce taxpayer resources. Achieving an unqualified audit with no material weakness (MW) requires every FAA organization to assume responsibility for following accounting policy properly by entering accurate source data into the accounting system.

From the highest levels of the agency down, the audit is a priority. Executive-level leadership moves resources where they are needed so that sound internal controls operate routinely and effectively, any audit issues are resolved promptly, integrity of data and business system operations is ensured, and ongoing performance is monitored. This strong emphasis on fiscal responsibility is the most significant factor contributing to the achievement of this measure.

UNQUALIFIED AUDIT OPINION			
Fiscal Year	Target	Actual Performance	Target Achieved?
2006	Unqualified Audit Opinion with No MW	Unqualified Audit Opinion with One MW	✘
2007	Unqualified Audit Opinion with No MW	Unqualified Audit Opinion with One MW	✘
2008	Unqualified Audit Opinion with No MW	Unqualified Audit Opinion with No MW	✓
2009	Unqualified Audit Opinion with No MW	Unqualified Audit Opinion with No MW	✓
2010	Unqualified Audit Opinion with No MW	Unqualified Audit Opinion with No MW	✓
2011	Unqualified Audit Opinion with No MW	Unqualified Audit Opinion with No MW	✓

OBJECTIVE: Make Decisions Based on Reliable Data to Improve Our Overall Performance and Customer Satisfaction

CRITICAL ACQUISITIONS ON BUDGET

In FY 2009, 90% of Major System Investments are within 10% variance of current baseline total budget estimate at completion (BAC).	
FY 2011 Target	Make sure 90% of critical acquisitions are within 10% of annual budget as reflected in the Capital Investment Plan (CIP).
FY 2011 Result	100%
Public Benefit	FAA's ability to keep acquisitions within budget and schedule will allow for a timely transition of NextGen programs The transition to NextGen involves acquiring numerous systems to support precision satellite navigation; digital, networked communications; integrated weather information; layered, adaptive security.

The purpose of the Critical Acquisitions on Budget target is to encourage programs to stay on budget, identify significant projected budget variances early, and take corrective actions.

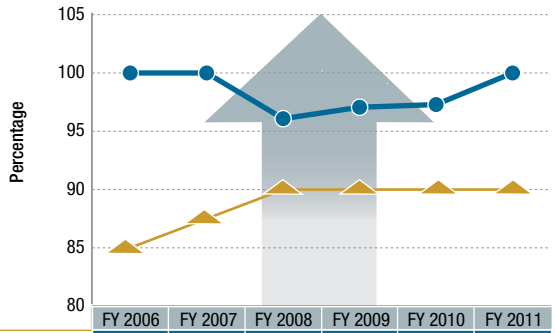
The performance measure began in FY 2003 and will continue each fiscal year through the acquisition of the selected programs. The performance target progressively increased each year from 80 percent in FY 2003 until it reached 90 percent in FY 2008. This progressive increase ensures that the FAA's acquisition performance is consistent with targets set in The Department of Transportation Strategic Plan 2006-2011. Maintaining the 90 percent target established in FY 2008 demonstrates the FAA's commitment to meet cost goals and benchmarks that are well established across government agencies.

Thirty-four of 34 (100%) of programs were within their established annual cost goals. It is important to note that performance against this target is measured based on a program's estimated total capital acquisition costs at the end of the year, in relation to the estimated total cost at the beginning of the year. A program's total budget increase is reflected in this measure in the year it is reported. Going forward, the program's budget at completion also reflects that increase. Thus, for example, the En Route Automation Modernization (ERAM) program did not meet its cost goal in FY 2010 because its estimated total capital acquisition cost increased $330 million (15%) during FY 2010. The revised ERAM total cost estimate, including the $330 million increase, is the measurable benchmark included in this target for FY 2011.

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

CRITICAL ACQUISITIONS ON BUDGET

Percentage of Programs within Planned Budget



	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ACTUAL	100%	100%	96.08%	97.06%	97.29%	100%
TARGET	85.00%	87.50%	90.00%	90.00%	90.00%	90.00%
TARGET ACHIEVED?	✓	✓	✓	✓	✓	✓

CRITICAL ACQUISITIONS ON SCHEDULE

In FY 2009, 90% of Major System Investments selected annual milestones are achieved.		
FY 2011 Target		Make sure 90% of critical acquisition programs are on schedule.
FY 2011 Result	✓	94%
Public Benefit		FAA's ability to keep acquisitions within budget and schedule will allow for a timely transition of NextGen programs. The transition involves acquiring numerous systems to support functions such as precision satellite navigation, digital networked communications, integrated weather information, and layered adaptive security.

Very similar to the Critical Acquisitions on Budget target, the Critical Acquisitions on Schedule target also represents a progressive measure for each fiscal year of the performance of critical FAA acquisition programs. The performance measure began in FY 2003 and will continue each fiscal year through the acquisition of the selected programs. The performance target increased each year from 80 percent in FY 2003 until it reached 90 percent in FY 2008. This progressive increase ensures that the FAA's acquisition performance is consistent with targets set in The Department of Transportation Strategic Plan 2006-2011. Maintaining the 90 percent target established in FY 2008 demonstrates the FAA's commitment to meet schedule goals and benchmarks that are well established across government agencies.

In FY 2011, a total of 94 percent of the major system investments remained within the established yearly schedule targets. However, four of the original 54 milestones that comprised this year's target were approved to slip their planned September 2011 milestones into FY 2012 following the furlough of approximately 4,000 workers in August. The four programs would have completed their milestones originally scheduled for September 2011. Thus, the number of milestones included in this FY 2011 target was reduced from 54 to 50. The four slipped programs and milestones were:

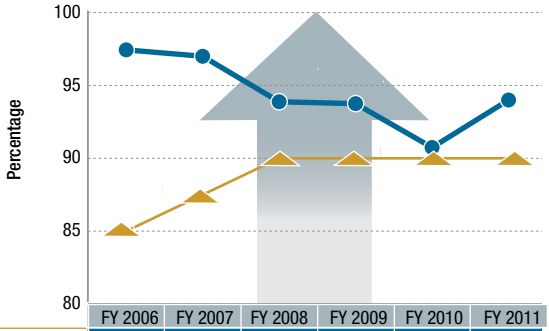
1. Juneau Airport Wind System (JAWS) - "Achieve In-Service Decision for JAWS Hybrid"
2. Air Traffic Control Radar Beacon Interrogator-Replacement (ATCBI-6) - "Last Operational Readiness (ORD)"
3. Terminal Voice Switch Replacement (TVSRII)- Delivery final 5 for a total of 10 TVSR II's to ATC Facilities"
4. CATMT Work Package 2 -"Deploy CIWS into TMFS

Of the 50 milestones included in the revised target, 47 (94%) met their established targets.

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

CRITICAL ACQUISITIONS ON SCHEDULE

Percentage of Programs Meeting Scheduled Milestones



	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ACTUAL	97.44%	97.00%	93.88%	93.75%	90.74%	94.00%
TARGET	85.00%	87.50%	90.00%	90.00%	90.00%	90.00%
TARGET ACHIEVED?	✓	✓	✓	✓	✓	✓

INFORMATION SECURITY

Achieve zero cyber security events that disable or significantly degrade FAA mission critical Line of Business systems.	
FY 2011 Target	Zero cyber-security events that significantly degrade FAA mission critical Line of Business systems.
FY 2011 Result	✓ Zero cyber security events.
Public Benefit	The benefit to the public is a safe and secure National Airspace System with no disruption of service due to cyber events.

Across our country, hackers are on an ongoing quest to disrupt or exploit critical Government and industry infrastructure. One piece of critical infrastructure at risk of disruption or exploitation, as identified by President Obama in the Homeland Security Presidential Directive -7, is the country's transportation system, including aviation. Given our mission to provide a safe, efficient, and responsive air transportation system to the Nation and the global aviation community, FAA must protect itself against the threat of cyber attacks.

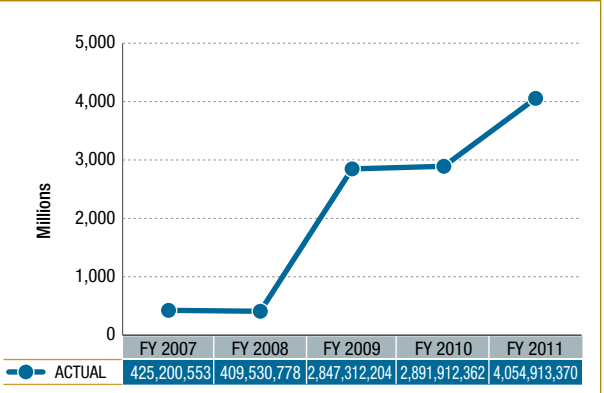
We averaged approximately 4.05 billion cyber events in FY 2011, an average of 10.58 million per day. However, none of these events disabled or seriously degraded FAA services. This is the sixth consecutive year we have met this goal. Our success is due to the acquisition of more technologically advanced equipment at the DOT/FAA Cyber Security Management Center (CSMC), the quality of the analysts looking at the alerts, and our efforts to proactively remediate cyber security vulnerabilities. These efforts include network mapping, security logging, strategic sensor placement, development of secure enclaves, focused protection of executive systems and Intrusion Protection Systems. Additionally, Information System Security Managers within each organization have been able to react quickly to changing events.

We are working to improve in areas such as increased trust, visibility, and information sharing. To further support these efforts, our agency established working groups to address sensor placement within the NAS and to strengthen stakeholder communication and trusted relationships, fostered, for example, by the Cyber Event Management Working Group (CEMWG) and the FAA Telecommunications Infrastructure (FTI) Phase II Initiative. These workgroups have collectively improved security through more effective Information Systems Security Officer (ISSO) communications, network packet capture deployments, sensor realignment, and comprehensive Web assessments.

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

Our Compliance Program meets Federal, departmental, and agency policies that require the regular testing and evaluation of information security policies, procedures, and practices. During FY 2011, we completed a comprehensive assessment of 72 security systems to ensure policies were correctly implemented and providing full protection to FAA systems. We also successfully completed 222 system

INFORMATION SECURITY
Number of Cyber Security Alerts



INFORMATION SECURITY
Number of Cyber Security Events that Disable or Significantly Degrade Mission Critical Systems

Fiscal Year	Target	Actual Performance	Target Achieved?
2006	0	0	✓
2007	0	0	✓
2008	0	0	✓
2009	0	0	✓
2010	0	0	✓
2011	0	0	✓

assessments. For both type of assessments we achieved a 100 percent completion rate.

We are actively establishing appropriate administrative, technical, and physical safeguards to strengthen the privacy protection program that secures personally identifiable information (PII). This is reflected in the phased social security number (SSN) reduction/elimination plan, which aims, where possible and practical, to reduce the unnecessary collection and use of SSNs throughout the agency.

Last year, we completed Phase One efforts to identify, reduce, protect, and prevent the use of SSNs across the agency. In FY 2011, we ushered in Phase Two. This second phase ensures digitally sensitive PII on FAA's network is identified and protected from misuse or violation of the provisions of DOT policies. Future phases will ensure compliance with the OMB mandate that requires the substantial reduction or full elimination of SSNs from FAA systems by FY 2013.

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

OBJECTIVE: Enhance Our Ability to Respond to Crises Rapidly and Effectively, Including Security-related Threats and Natural Disasters

CONTINUITY OF OPERATIONS

Exceed Federal Emergency Management Agency continuity readiness levels by 5%.		
FY 2011 Target		Exceed Federal Emergency Management Agency (FEMA) continuity readiness levels by 5%.
FY 2011 Result	✓	**6.00% ahead of requirements**
Public Benefit		The ability of FAA to achieve continuity of operations quickly in response to a variety of incidents and/or disasters ensures that the national airspace remains operational.

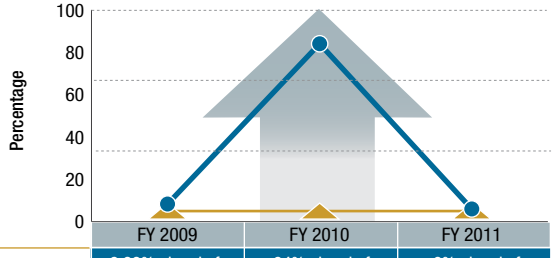
Achieving readiness levels earlier than FEMA requires enhances our ability to respond to crises rapidly and effectively, including security-related threats and natural disasters. In addition, by achieving this measure, we demonstrate to other federal agencies and the public that we stand ready to respond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

In the absence of a "real-world" event, we routinely participate in continuity of operations exercises. During this exercise, our agency is required by FEMA to be capable of accomplishing specified tasks within 12 hours. In FY 2011, we achieved our target by attaining the level 6 percent sooner than the FEMA required goal. These annual continuity of operations exercises take place on a varied schedule and are part of a larger-scale training and exercise program.

In FY 2011, we continued to build and improve emergency plans and preparedness tools to sustain essential services and provide for employee well-being during crises. For example, in addition to annual training for Continuity Cadre members we continued development of a Web-based, emergency-operation, information-sharing tool that creates a common operational picture and supports effective decision-making.

CONTINUITY OF OPERATIONS

Percentage Achievement of Readiness Levels Exceeds FEMA Requirement



	FY 2009	FY 2010	FY 2011
ACTUAL	8.33% ahead of requirements	84% ahead of requirements	6% ahead of requirements
TARGET	5% ahead of requirements	5% ahead of requirements	5% ahead of requirements
TARGET ACHIEVED?	✓	✓	✓

This was a new measure in FY 2009.

VERIFICATION AND VALIDATION OF PERFORMANCE INFORMATION

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

In addition to internal verification reviews, DOT independently verifies performance data. Also, the incidents that are included in several FAA safety performance measures, such as the Commercial Air Carrier Fatality Rate and the General Aviation Fatal Accident Rate, require independent verification by the NTSB and the Bureau of Transportation Statistics. Data for these measures are not considered final until NTSB completes its report on each incident.

COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

The internal review processes supports the integrity of performance data. At the beginning of each fiscal year, we update the Portfolio of Goals, a clearinghouse for accurate and detailed documentation of *Flight Plan* performance measures. This exhaustive report includes technical definitions for each measure, as well as data source information, statistical issues, and completeness and reliability statements. Where the criteria for targets have changed, it is noted and the changes are explained. (See **http://www.faa.gov/about/plans_reports/media/FY11%20Portfolio%20of%20Goals.pdf** to review the FY 2011 Portfolio of Goals.)

To supplement the Portfolio of Goals, the agency conducts its own annual internal review of the verification processes used by all FAA organizations responsible for collecting and reporting performance data. The agency's full understanding of these processes allows it to provide complete and definitive documentation of results as required by auditors at the end of the year.

PROGRAM EVALUATIONS

Program evaluation is a major element of the *Government Performance and Results Modernization Act of 2010*. The statute calls for agencies to use program evaluations to assess the manner and extent to which Federal programs achieve intended objectives. While performance measures use statistics to show whether we have achieved intended outcomes, program evaluations use analytical techniques to assess the extent to which programs contributed to their desired outcomes and trends. Understanding the results of these program evaluations enables us to initiate actions to improve program performance. Program evaluations or assessments are conducted by contractors, academic institutions, the Office of Inspector General (OIG), or the Government Accountability Office (GAO).

The following are brief summaries of selected program evaluations conducted during FY 2011:

ADS-B: Automatic Dependent Surveillance–Broadcast Program

http://www.oig.dot.gov/library-item/5415

In 2011, the DOT OIG conducted an evaluation of FAA's Automatic Dependent Surveillance-Broadcast (ADS-B) program. This program is of particular interest because it has been identified as a key component to the full and timely implementation of NextGen. The report, issued by the OIG in October, is entitled *FAA Faces Significant Risks in Implementing the Automatic Dependent Surveillance—Broadcast Program and Realizing Benefits*. This evaluation was conducted at the request of the Chairmen of the House Committee on Transportation Infrastructure and Subcommittee on Aviation. The objective of the evaluation was to:

- Examine key risks to FAA's successful implementation of ADS-B
- Assess the strengths and weaknesses of FAA's contracting approach

OIG Findings. The DOT OIG states the FAA is making progress in implementing ADS-B at limited locations and working with airspace users to refine the use of the new technology. However, the OIG evaluation identified risks in five areas that will impact the cost, schedule, and expected benefits of ADS-B: equipage, new requirements and controller/pilot procedures, frequency congestion with ADS-B broadcasts, integration with air traffic management systems, and potential security vulnerabilities. In addition, risks with FAA's contract approach could increase the overall program cost. For example, FAA has not updated its cost-benefit analysis to ensure it is pursuing the most cost effective way to implement ADS-B. Moreover, the contract's structure "bundles" costs for various ADS-B services, making it difficult for decision makers to track them. The OIG states the FAA will be challenged to address contract issues without the right skill mix but has not yet assessed staffing gaps or actions needed to ensure it can effectively oversee the contractor once the ground system is complete and being used to manage air traffic.

Recommendations. The DOT OIG recommendations for reducing ADS-B implementation risk include:

1. Accelerate efforts to establish requirements for ADS-B In and certify cockpit displays for enhancing pilot situational awareness to improve operations at high-density airports.
2. Further quantify and validate controller productivity enhancements that can result from displaying ADS-B information on controller displays and the additional automation needed to maximize these ADS-B benefits.
3. Develop and fund a targeted human factors research effort for pilots and controllers for ADS-B In requirements (display and procedures) in order to prioritize efforts and examine the proper sequence for introducing new capabilities.
4. Work with the U.S. intelligence community to assess potential threats to the ADS-B system and ways to mitigate them.
5. Update the cost benefit analysis for the acquisition to ensure FAA's plan is still appropriate before committing the additional funds for a nationwide deployment of the ADS-B ground infrastructure.
6. Clarify the use of ADS-B value-added services and reexamine assumptions about the ability of ITT (the contractor) to sell them in light of their planned NextGen efforts to greatly expand information sharing between FAA and stakeholders.
7. Specify the cost and schedule for providing ADS-B critical services to all en route and airport service domains over the life of the contract.
8. Assess the technical readiness of ADS-B and any risks to its development and determine which locations will need ADS-B.
9. Determine and obtain the necessary in-house expertise to effectively monitor the contractor's efforts and oversee the ADS-B ground infrastructure over the long term.

Planned Actions. We concurred with seven of the nine DOT OIG recommendations. We have taken actions to agree with several airline partners to equip aircraft and collect data. Additionally, the FAA and industry are researching high-value ADS-B components to prioritize which applications would be necessary for cockpit display. We also concur with the OIG's recommendation that we quantify and validate controller productivity but caveat that negotiation with the National Air Traffic Controllers Association (NATCA) about any modifications to Air Traffic Controller (ATC) evaluations may be required. The FAA will evaluate any recommendations that come from ADS-B research and the efforts of RTCA Inc., a nonprofit organization that develops technical guidance for use by government regulatory authorities, including the FAA. Such recommendations and conclusions will be addressed during the Joint Resource Council (JRC) in 2012 to determine the level of resources needed to support ADS-B. This includes baselining and funding activities in FY 2014 and beyond.

We partially concurred with the OIG's recommendation to update the cost-benefit analysis for the nationwide deployment of the ADS-B ground infrastructure. That is, we agreed with the need to eventually update the cost benefit analysis, but believe it is premature to do so now. We believe the benefits are linked to the equipage rate. In the interim, we plan to sample the equipage rate between 2015 and 2016.

Additionally, we partially concurred with the OIG's recommendation to specify the cost and schedule for providing ADS-B nationwide. We proposed we would provide clarification of the current pricing tables for ADS-B critical services to all en route and airport surface areas.

Adequate and Effective Acquisition Workforce

http://www.oig.dot.gov/library-item/5604

The DOT OIG conducted an evaluation of the FAA's workforce acquisition policies and plans in FY 2011. The

report, issued by the OIG in August, is entitled *FAA Policies and Plans Are Insufficient to Ensure an Adequate and Effective Acquisition Workforce*. The objectives of the evaluation were to assess the FAA's Acquisition Workforce Plan to determine whether it:

- Comprehensively identified FAA's acquisition workforce and the required skills and competencies needed now and in the future;
- Addressed gaps in the hiring and development of this important workforce; and
- Identified and implemented the programs, policies, and practices needed to ensure it has an adequate acquisition workforce.

OIG Findings. The DOT Inspector General's evaluation of FAA's Workforce Plan concluded that the plan is "not comprehensive and has not sufficiently addressed gaps in hiring and developing its acquisitions workforce." The OIG also found that FAA has not fully implemented the programs, policies, and practices needed to ensure an adequate workforce.

Recommendations. The DOT OIG recommended that we:

1. Develop a standard definition of acquisition workforce and clarify which employees are included in each acquisition discipline. Communicate this definition to all staff involved in identifying the acquisition workforce.
2. Identify the entire FAA acquisition workforce, including contracted and Federal employees for all lines of business. Develop and implement tools and internal controls to ensure FAA accurately identifies its acquisition workforce.
3. Determine the best mix of labor resources by identifying the proper roles of both contractors and Federal employees, along with the skills sets and expertise needed for each group.
4. Assess the function and role of Technical Officer Representatives (TORs). Determine the need to include TORs as a part of FAA's acquisition workforce.
5. Complete competency models for all acquisition disciplines.
6. Determine the need for certification programs for each acquisition discipline and review existing certification programs to determine whether certifications should be internal or external. Document justifications for decisions made and include these justifications in the next updated of the plan.
7. Document reasons for when FAA cannot meet its hiring goals, both overall hiring goals and specific hiring targets, for FAA's lines of business and acquisition disciplines.
8. Establish processes for tracking workforce hiring, training, and certification. Validate hiring data by requiring service units identify the discipline fields for newly hired acquisition employees.
9. Enforce employee development policies to ensure all acquisition workforce employees complete required training. In particular, ensure that contracting officers meet minimum certification requirements for their warrant authority.
10. Include details on the resources, specific steps, timelines, milestones, and deliverables needed to implement future updates to the Acquisition Workforce Plan.
11. Notify all acquisition employees of their acquisition roles and duties and ensure they are aware of applicable certification requirements.

Current and Planned Actions. We concurred with 10 of the 11 DOT OIG recommendations. We are currently taking corrective actions to address the DOT OIG recommendations. We have developed a standard definition of the acquisition workforce and communicated it to all staff in acquisitions. We have added more organizations to the Acquisition Workforce Plan. However, it is important to note only the organizations that are primary providers of acquisitions have been added. The FAA has been working to stabilize its processes, tools and internal controls for identifying, tracking, validating and reporting on its acquisition workforce. Additionally, FAA is conducting reviews and providing reports of contracts to OMB.

Streamlined Environmental Impact Statement Process

The results of the FY 2010 process evaluation entitled Streamlined Environmental Impact are not yet available. The contract to complete the study was extended and the findings will be provided in FAA's FY 2012 PAR.

Runway Safety Program

In FY 2011, ATO planned an external audit of the Runway Safety Program. The lack of funding, precluded FAA's investment in this endeavor.

Financial Statements

MARK HOUSE
CHIEF FINANCIAL OFFICER

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The American people expect solid financial management from the FAA as the Nation transitions into the next century of flight. The current fiscal environment serves as a reminder that in a period of economic uncertainty, the need for vigilance has never been greater. From financial planning and budgeting on the front end, through cost management during program execution, to final accounting and reporting at the back end, we must manage the funds with which we have been entrusted in order to accomplish our mission in the most efficient manner possible.

We continue our focus on reducing costs where it makes sense by applying innovative financial tools, models, and procedures. We are also enhancing program oversight by carefully monitoring our progress in meeting performance measures and targets. This focus supports the efficient use of resources, paving the way for future innovation and investment.

Throughout this document, you will read about our many financial accomplishments in FY 2011. In addition to these highlighted activities, we achieved an unqualified audit opinion with no material weaknesses in our FY 2011 financial statements. Also during FY 2011, the Association of Government Accountants awarded FAA the prestigious Certificate of Excellence in Accountability Reporting (CEAR) award for our FY 2010 PAR. This is considered the highest form of recognition in Federal Government financial and performance management reporting. The FAA has won the award seven times.

By tracking and managing performance of key programmatic, operational, and financial indicators, we are making the FAA work better, faster, and more efficiently. We hold ourselves accountable for obtaining results consistent with our mission. Our goal is to move the national air traffic control system safely, efficiently, and responsibly into the future, and to do it in a manner that reflects the highest standards of fiscal responsibility.

Mark House
Chief Financial Officer
November 9, 2011

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Memorandum

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

Subject: INFORMATION: Quality Control Review of Audited Financial Statements for Fiscal Years 2011 and 2010, Federal Aviation Administration
Report Number: QC-2012-008

Date: November 14, 2011

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: JA-20

To: The Secretary
Federal Aviation Administrator

I respectfully submit our report on the quality control review (QCR) of the Federal Aviation Administration's (FAA) audited financial statements for fiscal years 2011 and 2010.

The audit of FAA's financial statements as of and for the years ended September 30, 2011, and September 30, 2010, was completed by Clifton Gunderson, LLP under contract to the Office of Inspector General (attached). The contract required the audit be performed in accordance with generally accepted Government auditing standards and Office of Management and Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended.

Clifton Gunderson, LLP concluded that the financial statements present fairly, in all material respects, FAA's assets, liabilities, and net position as of September 30, 2011, and September 30, 2010, and net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles. The report did not include any reportable internal control deficiencies or instances of reportable noncompliance with laws and regulations tested.

We performed a QCR of Clifton Gunderson, LLP's report and related documentation. Our QCR, as differentiated from an audit performed in accordance with generally accepted Government auditing standards, was not intended for us to express, and we do not express, an opinion on FAA's financial statements or conclusions about the effectiveness of internal controls or compliance with laws

and regulations. Clifton Gunderson, LLP is responsible for its report dated November 9, 2011, and the conclusions expressed in that report. However, our QCR disclosed no instances in which Clifton Gunderson, LLP did not comply, in all material respects, with generally accepted Government auditing standards. A response to this report is not required since Clifton Gunderson, LLP did not make any recommendations.

We appreciate the cooperation and assistance of FAA representatives, the Office of Financial Management, and Clifton Gunderson, LLP. If we can answer any questions, please call me at x61959, or Lou Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at x61427.

Attachment

#

Clifton Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

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

In our audit of the U.S. Department of Transportation (DOT), Federal Aviation Administration (FAA) for fiscal year (FY) 2011 we found:

- The consolidated balance sheets of FAA as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources for the years then ended (hereinafter referred to as "consolidated financial statements") are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Significant progress has been made in FY 2011 on the control deficiency condition noted in the FY 2010 auditor's report relating to Controls over Financial Systems and Applications. Accordingly, this matter is no longer considered a significant deficiency;
- No material weaknesses or other significant deficiencies in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations; and
- No reportable noncompliance with laws and regulations we tested, including the Federal Financial Management Improvement Act of 1996.

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

OPINION ON FINANCIAL STATEMENTS

In our opinion, the accompanying consolidated financial statements including the accompanying notes present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States, FAA's assets, liabilities, and net position as of September 30, 2011 and 2010, and net costs; changes in net position; and budgetary resources for the years then ended.

As discussed in Note 1L, *Summary of Significant Accounting Policies*, and Note 6, *Property, Plant and Equipment*, the accompanying financial statements reflect $2 billion of construction in progress, and air traffic control legacy assets currently in use with a net book value of $745 million, relating to implementation of FAA's plan to upgrade its air traffic control capabilities to a new air traffic control system referred to as ERAM. The implementation of ERAM will begin in FY 2012, and will result in certain legacy assets being retired while others will continue to be utilized in ERAM.

Member of HLB International

As discussed in Note 1E, *Summary of Significant Accounting Policies*, and Note 12, *Earmarked Funds*, the accompanying financial statements reflect actual excise tax revenues collected through June 30, 2011 and excise tax revenues estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2011.

As discussed in Note 1E, *Summary of Significant Accounting Policies*, and Note 16, *Commitment, Contingencies and Disclosures FAA* is operating under a short term extension of its authorization, Public Law 112-30, *The Surface and Air Transportation Programs Extension Act of 2011*. This authorization, which is in effect through January 31, 2012, provides many of FAA's programmatic and financing authorities, including Airport Improvement Program contract authority and the authority to collect excise taxes into and make expenditures from the Airport and Airway Trust Fund. FAA is the subject of several legislative reauthorization proposals in Congress.

CONSIDERATION OF INTERNAL CONTROL

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness or significant deficiency.

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

SYSTEMS' COMPLIANCE WITH FFMIA REQUIREMENTS

Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether the financial management systems used by FAA substantially comply with the

Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

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

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of FAA's compliance with selected provisions of laws and regulations for FY 2011 disclosed no instances of noncompliance that would be reportable under United States generally accepted government auditing standards or OMB audit guidance. However, the object of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

STATUS OF PRIOR YEAR'S CONTROL DEFICIENCIES

As required by United States generally accepted government auditing standards and OMB Bulletin No. 07-04, as amended, we have reviewed the status of FAA's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditor's Report dated November 8, 2010.

The prior year audit report noted one control deficiency: Controls over Financial Systems and Applications. As noted in **Exhibit I**, FAA management has implemented substantial changes to its policies and procedures in this area in FY 2011. Accordingly, the prior year finding has been resolved, and this matter is no longer considered a Significant Deficiency for purposes of this report.

CONSISTENCY OF OTHER INFORMATION

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

Other information, exclusive of the MD&A and the Financial Statements sections in the table of contents of the FY 2011 Performance and Accountability Report, is presented for additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

OBJECTIVES, SCOPE AND METHODOLOGY

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

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

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

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

We did not test compliance with all laws and regulations applicable to FAA. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to FAA's financial statements for the fiscal year ended September 30, 2011. We

caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

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

AGENCY COMMENTS AND OUR EVALUATION

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

****

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

Clifton Gunderson LLP

Calverton, Maryland
November 9, 2011

EXHIBIT I

DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
INDEPENDENT AUDITOR'S REPORT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
September 30, 2011

Prior Year Condition	Status As Reported at September 30, 2010	Status as of September 30, 2011
Controls over Financial Systems and Applications	1) ***Significant Deficiency:*** DOT's Enterprise Service Center (ESC), that provides financial transaction processing and reporting services to FAA, received a Statement of Auditing Standards (SAS) No. 70 report indicating weaknesses related to the ESC system's configuration management controls, life cycle risk monitoring and risk mitigation processes.	DOT and ESC management worked together to ensure configuration management policies were developed and implemented, the Delphi Relational Database Management System was operating at current security patch levels, and is performing an independent risk analysis of ongoing Oracle patch releases. Accordingly, this matter is resolved.

EXHIBIT II

DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
MANAGEMENT'S RESPONSE TO FY 2011
INDEPENDENT AUDITOR'S REPORT
November 9, 2011

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

Deputy Assistant Administrator for Financial
Services/CFO

800 Independence Ave. SW.
Washington, D.C. 20591

NOV 9 2011

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

Dear Mr. Ercolano:

We have received your Independent Auditor's Report related to the Federal Aviation Administration's (FAA's) fiscal year 2011 consolidated financial statements and offer the following comments:

The Office of Financial Services, together with the Chief Information Officer (CIO) and the Enterprise Services Center (ESC), collaborated closely to develop and implement a corrective action plan that successfully resolved the information technology significant deficiency that you identified in your report last year.

We are pleased that our continuous focus on improving financial management has resulted in not only an unqualified audit with no material weakness, but also no significant deficiencies. We remain committed to continuous improvement and providing excellent services to stakeholders and taxpayers. We will also continue to work in partnership with our auditors in support of an efficient and effective audit.

Thank you for your recognition of our efforts, your candor, and the professional manner in which you and your team have conducted your audits.

Sincerely,

Mark House

Mark House

FINANCIAL STATEMENTS

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

Assets	**2011**	**2010**
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 3,724,592	$ 4,599,674
Investments, net (Note 3)	10,335,745	8,551,547
Accounts receivable, prepayments, and other (Note 4)	187,429	235,156
Total intragovernmental	14,247,766	13,386,377
Accounts receivable, prepayments, and other, net (Note 4)	82,692	114,779
Inventory, operating materials, and supplies, net (Note 5)	607,160	593,553
Property, plant, and equipment, net (Notes 6 and 9)	13,114,738	13,230,400
Total assets	$ 28,052,356	$ 27,325,109
Liabilities		
Intragovernmental liabilities		
Accounts payable	$ 13,597	$ 16,584
Employee related and other (Note 8)	405,960	377,373
Total intragovernmental liabilities	419,557	393,957
Accounts payable	524,154	462,226
Grants payable	653,432	557,486
Environmental (Note 7, 15, and 16)	757,389	796,207
Employee related and other (Notes 8, 9, and 16)	1,154,414	1,115,861
Federal employee benefits (Note 10)	909,616	908,676
Total liabilities	4,418,562	4,234,413
Commitments and contingencies (Notes 9 and 16)		
Net position		
Unexpended appropriations—earmarked funds (Note 12)	1,088,171	1,151,893
Unexpended appropriations—other funds	65,775	207,341
Subtotal unexpended appropriations	1,153,946	1,359,234
Cumulative results of operations—earmarked funds (Note 12)	12,873,270	11,576,024
Cumulative results of operations—other funds	9,606,578	10,155,438
Subtotal cumulative results of operations	22,479,848	21,731,462
Total net position	23,633,794	23,090,696
Total liabilities and net position	$ 28,052,356	$ 27,325,109

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30
(Dollars in Thousands)

	2011	2010
Line of business programs (Note 11)		
Air Traffic Organization		
Expenses	$ 11,834,055	$ 11,389,169
Less earned revenues	(282,672)	(212,373)
Net costs	11,551,383	11,176,796
Aviation Safety		
Expenses	1,340,034	1,324,397
Less earned revenues	(11,402)	(11,804)
Net costs	1,328,632	1,312,593
Airports		
Expenses	3,388,712	4,015,462
Less earned revenues	(21)	(216)
Net costs	3,388,691	4,015,246
Commercial Space Transportation		
Expenses	16,564	15,040
Net costs	16,564	15,040
Non line of business programs		
Regions and center operations and other programs		
Expenses	820,051	686,774
Less earned revenues	(416,593)	(310,451)
Net costs	403,458	376,323
Net cost of operations		
Total expenses	17,399,416	17,430,842
Less earned revenues	(710,688)	(534,844)
Total net cost	$ 16,688,728	$ 16,895,998

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation

FEDERAL AVIATION ADMINISTRATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
UNEXPENDED APPROPRIATIONS

For the Years Ended September 30

(Dollars in Thousands)

	2011			2010		
	Earmarked	Other funds	Totals	Earmarked	Other funds	Totals
	Unexpended appropriations			Unexpended appropriations		
Beginning balances	$ 1,151,893	$ 207,341	$1,359,234	$ 1,142,193	$ 1,008,244	$ 2,150,437
Budgetary financing sources						
Appropriations received (Note 14)	4,974,028	—	4,974,028	5,350,028	—	5,350,028
Appropriations transferred-in/out	9,240	—	9,240	1,372	—	1,372
Rescissions, cancellations and other	(75,067)	—	(75,067)	(62,877)	—	(62,877)
Appropriations used	(4,971,923)	(141,566)	(5,113,489)	(5,278,823)	(800,903)	(6,079,726)
Total budgetary financing sources	(63,722)	(141,566)	(205,288)	9,700	(800,903)	(791,203)
Ending balances	$ 1,088,171	$ 65,775	$ 1,153,946	$ 1,151,893	$ 207,341	$ 1,359,234

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation

FEDERAL AVIATION ADMINISTRATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
CUMULATIVE RESULTS OF OPERATIONS

For the Years Ended September 30

(Dollars in Thousands)

	2011			2010		
	Earmarked	Other funds	Totals	Earmarked	Other funds	Totals
	Cumulative results of operations			Cumulative results of operations		
Beginning balances	$ 11,576,024	$ 10,155,438	$ 21,731,462	$ 11,236,393	$ 10,084,733	$ 21,321,126
Budgetary financing sources						
Appropriations used	4,971,923	141,566	5,113,489	5,278,823	800,903	6,079,726
Non-exchange revenue—excise taxes and other (Note 12)	11,754,809	31,844	11,786,653	10,829,747	—	10,829,747
Transfers-in/out without reimbursement	(158,171)	(15)	(158,186)	(202,694)	2	(202,692)
Other financing sources						
Donations and forfeitures of property	—	—	—	—	452	452
Transfers-in/out without reimbursement	(793,400)	789,166	(4,234)	(1,603,235)	1,603,235	—
Imputed financing from costs absorbed by others (Note 13)	656,596	67,776	724,372	538,640	60,461	599,101
Other	325	(25,305)	(24,980)	—	—	—
Total financing sources	16,432,082	1,005,032	17,437,114	14,841,281	2,465,053	17,306,334
Net cost of operations	15,134,836	1,553,892	16,688,728	14,501,650	2,394,348	16,895,998
Net change	1,297,246	(548,860)	748,386	339,631	70,705	410,336
Ending balances	$ 12,873,270	$ 9,606,578	$ 22,479,848	$ 11,576,024	$ 10,155,438	$ 21,731,462

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30
(Dollars in Thousands)

	2011	2010
Budgetary resources (Note 14)		
Unobligated balance brought forward, transfers and other	$ 3,321,905	$ 3,598,143
Recoveries of prior year obligations	486,422	425,737
Budget authority	19,545,132	19,041,737
Spending authority from offsetting collections	5,427,894	4,795,635
Nonexpenditure transfers, net	(40,760)	(48,627)
Temporarily not available pursuant to public law	(5,812)	—
Permanently not available	(3,632,929)	(3,521,002)
Total budgetary resources	$ 25,101,852	$ 24,291,623
Status of budgetary resources		
Obligations incurred	$ 21,545,641	$ 20,969,718
Unobligated balance available	1,670,513	1,704,024
Unobligated balance not available	1,885,698	1,617,881
Total status of budgetary resources	$ 25,101,852	$ 24,291,623
Change in obligated balance		
Obligated balance, net, beginning of period	$ 8,943,013	$ 9,216,986
Obligations incurred	21,545,641	20,969,718
Gross outlays	(21,102,064)	(20,938,189)
Recoveries of prior years unpaid obligations, actual	(486,422)	(425,737)
Change in uncollected customer payments from Federal sources	54,891	120,235
Obligated balance, net, end of period	$ 8,955,059	$ 8,943,013
Unpaid obligations	$ 9,243,112	$ 9,285,957
Uncollected customer payments from Federal sources	(288,053)	(342,944)
Obligated balance, net, end of period	$ 8,955,059	$ 8,943,013
Outlays		
Gross outlays	$ 21,102,064	$ 20,938,189
Collections, net of offsetting receipts	(5,482,785)	(4,915,870)
Distributed offsetting receipts	(10,742)	(12,776)
Net outlays	$ 15,608,537	$ 16,009,543

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources of the Federal Aviation Administration (FAA). The statements are a requirement of the *Chief Financial Officers Act of 1990*, and the *Government Management Reform Act of 1994*. They have been prepared from, and are fully supported by, the books and records of FAA in accordance with (1) the hierarchy of accounting principles generally accepted in the United States of America and standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), (2) Office of Management and Budget (OMB) Circular Number A-136, *Financial Reporting Requirements*, and (3) Department of Transportation (DOT) and FAA accounting policies, which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control FAA's use of budgetary resources. The statements are subjected to audit, as required by OMB Bulletin Number 07-04, *Audit Requirements for Federal Financial Statements*.

Notes 4 and 8 include the necessary information to present "other assets" and "other liabilities" as defined by OMB Circular Number A-136. This presentation is used to support the preparation of the consolidated financial statements of the U.S. Government.

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

B. Reporting Entity

The FAA, which was created in 1958, is a component of the DOT, a cabinet-level agency of the Executive Branch of the United States Government. FAA's mission is to provide a safe, secure, and efficient global aerospace system that contributes to national security and the promotion of United States aerospace safety. As the leading authority in the international aerospace community, FAA is responsive to the dynamic nature of customer needs, economic conditions, and environmental concerns. The FAA reporting entity is comprised of the following major funds:

- Airport and Airway Trust Fund (AATF). The AATF is funded by excise taxes that the Internal Revenue Service (IRS) collects from airway system users. These receipts are unavailable until appropriated by the U.S. Congress. Once appropriated for use, FAA transfers AATF receipts necessary to meet cash disbursement needs to several other funds, from which expenditures are made. The AATF fully finances the following additional FAA funds:
  - Grants-in-Aid to Airports-AATF. As authorized, grants are awarded with Grants-in-Aid to Airports funding and used for planning and development to maintain a safe and efficient nationwide system of public airports. These grants fund approximately one-third of all capital development at the nation's public airports, and are administered through the Airport Improvement Program.
  - Facilities and Equipment-AATF. The Facilities and Equipment funds are FAA's principal means of modernizing and improving air traffic control and airway facilities. These funds also finance major capital improvements required by other FAA programs as well as other improvements to enhance the safety and capacity of the national airspace system.
  - Research, Engineering and Development-AATF. Research, Engineering, and Development funds finance long-term research programs to improve the air traffic control system.
- Operations General Fund and Operations-AATF. Operations finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It also finances the salaries and costs associated with carrying out FAA's safety and inspection and regulatory responsibilities. Operations-AATF is financed through transfers from the Airport and Airway Trust Fund. For administrative ease in obligating and expending for operational activities, those funds are then in turn transferred to the Operations General Fund, which is supplemented by appropriations from the U.S. Treasury. Expenditures for operational activities, whether originally funded by

the AATF or the General Fund of the U.S. Treasury, are generally made from the Operations General Fund.

- Aviation Insurance Revolving Fund. Revolving funds are accounts established by law to finance a continuing cycle of operations with receipts derived from such operations usually available in their entirety for use by the fund without further action by the U.S. Congress. The Aviation Insurance Revolving Fund provides products that address the insurance needs of the U.S. domestic airline industry not adequately met by the commercial insurance market. The FAA is currently providing war risk hull loss and passenger, crew, and third-party liability insurance as required by the Homeland Security Act of 2002 as amended by the Federal Aviation Administration Extension Act of 2011. Current insurance coverage expires on September 30, 2012.
- Administrative Services Franchise Fund (Franchise Fund). The Franchise Fund is a revolving fund designed to create competition within the public sector in the performance of a wide variety of support services.
- Other Funds. The consolidated financial statements include other funds such as (a) Aviation Overflight User Fees, which is a special fund in which receipts are earmarked by law for a specific purpose; (b) Facilities, Engineering & Development General Fund; and (c) General Fund Miscellaneous Receipts accounts established for receipts of non-recurring activity, such as fines, penalties, fees, and other miscellaneous receipts for services and benefits.
- The FAA has rights and ownership of all assets reported in these financial statements. The FAA does not possess any non-entity assets.

C. Budgets and Budgetary Accounting

Congress annually enacts appropriations to permit FAA to incur obligations for specified purposes. In FY 2011 and 2010, FAA was accountable for amounts made available in appropriations laws from the AATF, Revolving Funds, a Special Fund, and General Fund appropriations. FAA recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through Department of Treasury General Fund warrants and transfers from the AATF.

D. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis, in accordance with OMB Circular A-136.

Intra-governmental transactions and balances result from exchange transactions made between FAA and another Federal government reporting entity, while those classified as "with the public" result from exchange transactions between the FAA and non-Federal entities. For example, if the FAA purchases goods or services from the public and sells them to another Federal entity, the costs would be classified as "with the public," but the related revenues would be classified as "intra-governmental." This could occur, for example, when FAA provides goods or services to another Federal government entity on a reimbursable basis. The purpose of this classification is to enable the Federal government to prepare consolidated financial statements, and not to match public and intra-governmental revenue with costs that are incurred to produce public and intra-governmental revenue.

E. Revenues and Other Financing Sources

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating, capital and grant expenditures. Additional amounts are obtained from service fees (e.g., landing, registry, and overflight fees), war risk insurance premiums (see note 16), and through reimbursements for products and services provided to domestic and foreign governmental entities.

The AATF is sustained by excise taxes that the Internal Revenue Service (IRS) collects from airway system users. Excise taxes collected are initially deposited to the General Fund of the U.S. Treasury. The IRS does not receive sufficient information at the time the excise taxes are collected to determine how they should be distributed to specific earmarked funds. Therefore, the U.S. Treasury makes initial semi-monthly distributions to earmarked

funds based on estimates prepared by its Office of Tax Analysis (OTA). These estimates are based on historical excise tax data applied to current excise tax receipts. FAA's September 30, 2011, financial statements reflect excise taxes certified (as actual collections) by IRS through June 30, 2011, and excise taxes estimated by OTA for the period July 1 through September 30, 2011, as specified by SFFAS Number 7, *Accounting for Revenue and Other Financing Sources*. Actual excise tax collections data for the quarter ended September 30, 2011, will not be available from the IRS until February 2012. When actual amounts are certified by the IRS, generally three to four months after each quarter-end, adjustments are made to the AATF to account for the difference. Historically, actual excise tax collections certified by the IRS for the fourth quarter of the fiscal year have not been materially different from the OTA's estimate. Additional information on this subject is disclosed in Note 12.

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

Appropriations are recognized as a financing source when expended. Revenues from services provided by FAA associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services. War-risk insurance premiums are recognized as revenue on a straight-line basis over the period of coverage. Aviation overflight user fees are recognized as revenue in the period in which the flights took place.

FAA recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on FAA's behalf by the Office of Personnel Management (OPM), as well as amounts paid from the U.S. Treasury Judgment Fund in settlement of claims or court assessments against FAA.

At midnight July 22, 2011, FAA's authorization to collect excise taxes expired as Congress did not approve an extension to the existing authorization or pass a longer term reauthorization bill. This temporary lapse in authorization resulted in a loss of revenues for the AATF in the approximate amount of $419.0 million. A new short term extension was passed by Congress and signed by the President on August 5, 2011, reauthorizing FAA to again collect excise tax revenue through September 15, 2011. A subsequent extension was enacted authorizing excise tax collections through January 31, 2012.

F. Taxes

The FAA, as a Federal entity, is not subject to Federal, state, or local income taxes and, accordingly, no provision for income taxes was recorded in the accompanying financial statements.

G. Fund Balance with the U.S. Treasury

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

H. Investment in U.S. Government Securities

Unexpended funds in the AATF and Aviation Insurance Revolving Fund (war risk premiums) are invested in U.S. Government securities at cost. A portion of the AATF investments is liquidated semi-monthly in amounts needed to provide cash for FAA appropriation accounts, to the extent authorized. The Aviation Insurance Revolving Fund investments are usually held to maturity. Investments, redemptions, and reinvestments are held and managed under the direction of FAA by the U.S. Treasury.

I. Accounts Receivable

Accounts receivable consists of amounts owed to FAA by other Federal agencies and the public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include, for example, overflight fees, fines and penalties, reimbursements from employees, and services performed for foreign governments. These amounts due from the public are presented net of an allowance for loss on uncollectible accounts based on historical collection experience or an analysis of the individual receivables.

The FAA reports deposits in transit when the U.S. Treasury has not yet recognized FAA's collections received from the public or other Federal entities.

J. Inventory

Within the FAA's Franchise Fund, inventory is held for sale to FAA field locations and other domestic entities and foreign governments. Inventory consists of materials and supplies FAA uses to support the National Airspace System (NAS) and is predominantly located at the FAA Mike Monroney Aeronautical Center in Oklahoma City. Inventory cost includes material, labor, and applicable manufacturing overhead, and is determined using the weighted moving average cost method.

FAA field locations trade non-operational repairable components with the Franchise Fund. These components are classified as "held for repair." An allowance is established for repairable inventory based on the average historical cost of such repairs. The cost of repair is capitalized and these items are reclassified as "held for sale."

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

K. Operating Materials and Supplies

In contrast to inventory, which is held for sale by the Franchise Fund, operating materials and supplies are used in the operations of the agency. Operating materials and supplies primarily consist of unissued materials and supplies that will be used in the repair and maintenance of FAA owned aircraft. They are valued based on the weighted moving average cost method or on the basis of actual prices paid. Operating materials and supplies are expensed using the consumption method of accounting.

Operating materials and supplies "held for use" are those items that are consumed on a regular and ongoing basis. Operating materials and supplies "held for repair" are awaiting service to restore their condition to "held for use".

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

L. Property, Plant and Equipment (PP&E)

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

Depreciation expense is calculated using the straight-line method. Depreciation commences the first month after the asset is placed in service. FAA does not recognize residual value of its PP&E.

Real property assets such as buildings, air traffic control towers, en route air traffic control centers, mobile buildings, roads, sidewalks, parking lots, and other structures are depreciated over a useful life of up to 40 years.

Personal property assets such as aircraft, decision support systems, navigation, surveillance, communications and weather-related equipment, office furniture, internal use software, vehicles, and office equipment are depreciated over a useful life of up to 20 years.

Buildings and equipment acquired under capital leases are amortized over the lease term. If the lease agreement contains a bargain purchase option or otherwise provides for transferring title of the asset to FAA, the asset is depreciated over a useful life of up to 40 years.

Construction in Progress is valued at actual direct costs plus applied overhead and other indirect costs.

The FAA occupies certain real property that is leased by the DOT from the General Services Administration. Payments made by the FAA are based on the fair market value for similar rental properties.

The FAA conducts a significant amount of research and development into new technologies to support the NAS. Until such time as the research and development project reaches "technological feasibility" the costs associated with the project are expensed in the year incurred.

M. Prepaid Charges

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

N. Liabilities

Liabilities covered by budgetary or other resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available, congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations or other funding, including the AATF. Intragovernmental liabilities are claims against FAA by other Federal agencies.

O. Accounts Payable

Accounts payable are amounts FAA owes to other Federal agencies and the public. Accounts payable to Federal agencies generally consist of amounts due under interagency reimbursable agreements. Accounts payable to the public primarily consist of unpaid goods and services received by FAA in support of the NAS, and estimated amounts incurred but not yet claimed by Airport Improvement Program grant recipients.

P. Annual, Sick, and Other Leave

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

Q. Accrued Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the *Federal Employees' Compensation Act* (FECA). The actual costs incurred are reflected as a liability because FAA will reimburse the Department of Labor (DOL) two years after the actual payment of expenses by the DOL. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

R. Retirement Plan

The FAA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in CSRS are beneficiaries of FAA's matching contribution, equal to 7 percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect either to join FERS and Social Security or to remain in CSRS. FERS offers a savings plan to which FAA automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For FERS participants, FAA also contributes the employer's matching share for Social Security.

The FAA recognizes the imputed cost of pensions and other retirement benefits during an employee's active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to FAA for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. FAA recognizes the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

S. Grants

The FAA records an obligation at the time a grant is awarded. As grant recipients conduct eligible activities under the terms of their grant agreement, they request payment by FAA, typically via an electronic payment process. Expenses are recorded at the time of payment

approval during the year. The FAA also recognizes an accrued liability and expense for estimated eligible grant payments not yet requested by grant recipients. Grant expenses, including associated administrative costs, are classified on the Consolidated Statements of Net Cost under the line of business program "Airports."

T. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include (a) the allocation of AATF receipts by the OTA, (b) legal, environmental, and contingent liabilities, (c) accruals of accounts and grants payable, (d) accrued workers' compensation, (e) allowance for doubtful accounts receivable, (f) allowances for repairable and obsolete inventory balances, (g) allocations of common costs to CIP, (h) the allocation of an average cost of like assets within a program, commonly referred to as unit costing, (i) allocations of costs to programs on the Statement of Net Cost , and (j) accrued benefits and benefits payable.

U. Environmental Liabilities

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

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

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

V. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The FAA recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when they are both probable and can be reasonably estimated. The FAA discloses contingent liabilities in the notes to the financial statements (see Note 16) when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to FAA for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made.

W. Earmarked Funds Reporting

The FAA adopted Statement of Federal Financial Accounting Standards (SFFAS) Number 27, *Identifying and Reporting Earmarked Funds*, effective October 1, 2005. SFFAS Number 27 defines "earmarked funds" as those being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues. FAA's financial statements include the following funds, considered to be "earmarked":

- Airport and Airway Trust Fund (AATF)
- Operations – AATF
- Operations General Fund
- Grants-in-Aid for Airports – AATF
- Facilities and Equipment – AATF
- Research, Engineering, and Development – AATF
- Aviation Insurance Fund
- Aviation User Fees

The AATF is funded by excise taxes that the IRS collects from airway system users. These receipts are unavailable until appropriated by the U.S. Congress. Once appropriated for use, FAA transfers AATF receipts necessary to meet cash disbursement needs to several other funds, from which expenditures are made. Those funds that receive transfers from the AATF are the Operations Trust Fund,

Grants-in-Aid for Airports, Facilities and Equipment, and Research, Engineering and Development, all of which are funded exclusively by the AATF. These funds represent the majority of FAA annual expenditures.

In addition, the Operations General Fund is primarily funded through transfers from Operations-AATF, but is also supplemented by funding from the General Fund of the U.S. Treasury through annual appropriations. Because the Operations General Fund is primarily funded from the AATF, and because it is not reasonably possible to differentiate cash balances between those originally flowing from the AATF versus General Fund appropriations, the Operations General Fund is presented as an earmarked fund. The earmarked funds from the Facilities and Equipment fund are used to purchase or construct property, plant, and equipment (PP&E). When earmarked funds are used to purchase or construct PP&E, they are no longer available for future expenditure, have been used for their intended purpose, and therefore are classified as other funds on the balance sheet and the statement of changes in net position. The intended result of this presentation is to differentiate between earmarked funds available for future expenditure and earmarked funds previously expended on PP&E projects and therefore unavailable for future expenditure.

Additional disclosures concerning earmarked funds can be found in Note 12.

X. American Recovery and Reinvestment Act of 2009

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

The FAA received supplemental funding from ARRA of $1.1 billion for Grant-In-Aid to Airports and $200 million for Facilities and Equipment (F&E) activities. The F&E funding is to be used for improvements to power systems, air route traffic control centers, air traffic control towers, terminal radar approach control facilities and navigation and landing equipment. ARRA also stipulated that priority be given to F&E activities that will be completed within two years of enactment of this act or by February 17, 2011. As of September 30, 2011, FAA has obligated $197.1 million for F&E projects and disbursed $163.6 million.

The Grant-In-Aid to Airports funding was to be used for discretionary grants and for the procurement, installation and commissioning of runway incursion prevention devices and systems at airports. ARRA also stipulated that priority be given to Grant-In-Aid to Airport projects that will be completed within two years of enactment of this act or by February 17, 2011. Of the $1.1 billion ARRA funding for Grant-In-Aid to Airports, an amount not to exceed $2.2 million may be used to fund the award and oversight of grants made under this provision. As of September 30, 2011, FAA has awarded $1.082 billion in Grant-In-Aid to Airport grants and disbursed $1.067 billion of the grant awards. Oversight costs for ARRA funded grants as of September 30, 2011, are $1.6 million.

Note 2. Fund Balance with Treasury

Fund balance with Treasury account balances as of September 30, 2011 and 2010 were:

	2011	2010
Earmarked and other funds	$ 2,496,183	$ 3,417,820
Franchise Fund	257,152	294,076
Aviation Insurance Revolving Fund	49,565	6,048
AATF	921,692	881,730
Total	$ 3,724,592	$ 4,599,674

Unobligated fund balances are either available or not available. Amounts are reported as not available when they are no longer legally available to FAA for obligation. However, balances that are not available can change over time, because they can be used for upward adjustments of obligations that were incurred during the period of availability or for paying claims attributable to that time period.

Status of fund balance with Treasury		
Unobligated balance		
Available	$ 1,670,513	$ 1,704,024
Not available	1,885,698	1,617,881
Obligated balance not yet disbursed	168,381	1,277,769
Total	$ 3,724,592	$ 4,599,674

Note 3. Investments

As of September 30, 2011 and 2010, FAA's investment balances were as follows:

	2011			
Intragovernmental Securities	**Cost**	**Amortized (Premium) Discount**	**Investments (Net)**	**Market Value Disclosure**
Non-marketable par value	$ 8,640,889	$ —	$ 8,640,889	$ 8,640,889
Market-based	1,630,564	11,685	1,642,249	1,642,249
Subtotal	10,271,453	11,685	10,283,138	10,283,138
Accrued interest	52,607		52,607	
Total Intragovernmental Securities	$ 10,324,060	$ 11,685	$ 10,335,745	$ 10,283,138

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

The Secretary of the Treasury invests AATF funds on behalf of FAA. FAA investments are considered investment authority and available to offset the cost of operations to the extent authorized by Congress. As of September 30, 2011 and 2010, $8.6 billion and $7.0 billion were invested respectively in U.S. Treasury Certificates of Indebtedness. Nonmarketable par value Treasury Certificates of Indebtedness are special series debt securities issued by the Bureau of Public Debt to Federal accounts, and are purchased and redeemed at par (face value) exclusively through the Federal Investment Branch of the U.S. Treasury's Bureau of Public Debt. The securities are held to maturity and redeemed at face value on demand; thus, investing entities recover the full amount invested plus interest. Investments as of September 30, 2011, mature on various dates through June 30, 2012, and investments as of September 30, 2010, matured on various dates through June 30, 2011. The annual rate of return on Certificates of Indebtedness is established in the month of issuance. The average rate of return for certificates issued during FY 2011 and FY 2010 was 2.3 percent and 2.5 percent, respectively.

Nonmarketable, market-based Treasury securities are debt securities that the Treasury issues to Federal entities without statutorily fixed interest rates. Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities. FAA invests Aviation Insurance Fund collections in nonmarketable market-based securities and amortizes premiums and discounts over the life of the security using the interest method. As of September 30, 2011, these nonmarketable, market-based securities had maturity dates ranging from October 2011 to December 2014 and have an average rate of return of approximately 2.0 percent.

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

To the extent authorized by law, FAA has the ability to redeem its Treasury securities to make expenditures. When the FAA requires redemption of these securities, the U.S. Government finances those expenditures out of accumulated cash balances by raising tax or other receipts, borrowing from the public, repaying less debt, or curtailing other expenditures. This is the same way that the U.S. Government finances all other expenditures.

Note 4. Accounts Receivable, Prepayments, and Other Assets

Accounts receivable, prepayments, and other assets as of September 30, 2011 and 2010 were comprised of the following:

	2011	2010
Intragovernmental		
Accounts receivable	$ 42,240	$ 67,988
Prepayments and other	145,189	167,168
Intragovernmental total	187,429	235,156
With the public		
Accounts receivable, net	46,206	48,371
Prepayments	2,164	24,246
Deposits in transit and other	34,322	42,162
With the public total	82,692	114,779
Total accounts receivable, prepayments, and other	$ 270,121	$ 349,935

Intragovernmental prepayments represent advance payments to other Federal Government entities for agency expenses not yet incurred or for goods or services not yet received.

Accounts receivable from the public are shown net of allowances for uncollectible amounts of $19.3 million and $18.9 million, as of September 30, 2011 and 2010.

Note 5. Inventory, Operating Materials, and Supplies

As of September 30, 2011 and 2010, inventory, operating materials, and supplies were:

	2011		
	Cost	Allowance	Net
Inventory			
Held for sale	$ 91,036	$ —	$ 91,036
Held for repair	550,604	(119,266)	431,338
Raw materials, finished goods and other	40,712	(10,590)	30,122
Excess, obsolete, and unserviceable	13,766	(13,766)	—
Inventory total	696,118	(143,622)	552,496
Operating materials and supplies			
Held for use	41,509	—	41,509
Held for repair	26,192	(13,037)	13,155
Excess, obsolete, and unserviceable	325	(325)	—
Operating materials and supplies total	68,026	(13,362)	54,664
Total inventory, operating materials, and supplies	$ 764,144	$ (156,984)	$ 607,160

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

Inventory is considered held for repair based on the condition of the asset or item, and the allowance for repairable inventory is based on the average historical cost of such repairs.

FAA transfers excess items for disposal into the government-wide automated disposal system. Disposal proceeds, recognized upon receipt, may go to the U.S. Treasury's General Fund or to an FAA appropriation, depending on the nature of the item and the disposal method.

Note 6. Property, Plant, and Equipment, Net

Property, plant, and equipment balances at September 30, 2011 and 2010 were:

	2011		
Class of fixed asset	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	$ 5,646,118	$ (3,085,403)	$ 2,560,715
Personal property	17,749,562	(10,594,078)	7,155,484
Assets under capital lease (Note 9)	184,777	(90,139)	94,638
Construction in progress	3,303,901	—	3,303,901
Total property, plant and equipment	$ 26,884,358	$ (13,769,620)	$ 13,114,738

	2010		
Class of fixed asset	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	$ 5,324,470	$ (2,915,276)	$ 2,409,194
Personal property	18,675,790	(10,855,230)	7,820,560
Assets under capital lease (Note 9)	204,581	(104,678)	99,903
Construction in progress	2,900,743	—	2,900,743
Total property, plant and equipment	$ 27,105,584	$ (13,875,184)	$ 13,230,400

FAA's construction in progress relates primarily to NAS assets, which are derived from centrally funded national systems development contracts, site preparation and testing, raw materials, and internal labor charges.

Assets temporarily not in use, including decommissioned assets awaiting disposal, are reflected in FAA financial records as Property Not in Use.

The FAA is currently developing and testing the En Route Automation Modernization (ERAM) system to upgrade the management of air traffic in the en route airspace and enable implementation of certain NextGen capabilities. As of September 30, 2011, construction in progress includes $1.98 billion related to the ERAM system.

The schedule for commissioning ERAM is tentatively expected to begin in 2012; however, the schedule has not been finalized and will depend upon results of continued system development and testing. The FAA expects to deploy the ERAM system at 20 air route traffic control centers over the next several years. When fully deployed and commissioned, the ERAM system will replace four legacy air traffic systems (DSR, HOST, URET, and EBUS) currently being depreciated over service lives ranging from 5–20 years.

As of September 30, 2011, the acquisition cost of the four air traffic legacy systems currently in use was $2,143 million with a net book value of $745 million. Depreciation on these air traffic legacy systems was $121 million and $136 million in FY 2011 and 2010, respectively. FAA has re-evaluated the remaining service lives of the four legacy air traffic systems that ERAM will replace, and their estimated values at disposal. When the ERAM deployment schedule is finalized, and thus the disposal date of the legacy systems is known, FAA will adjust the accounting records of the legacy systems in accordance with applicable accounting standards to reflect reduced useful lives and net book values.

In FY 2011, FAA completed an in depth review and validation of its personal property assets begun in FY 2010. The review included a statistical sampling and validation of many personal property assets across the United States and Canada to confirm the asset's existence. As a result of the review, FAA adjusted its property records in FY 2011 for assets previously retired but not recorded in the appropriate year's financial statements. The adjustments made to FAA's accounting records were not material to FAA's FY 2011 or prior year financial statements.

Note 7. Environmental Liabilities

FAA's environmental liabilities as of September 30, 2011 and 2010 were:

	2011	2010
Environmental remediation	$ 501,454	$ 542,124
Environmental cleanup and decommissioning	255,935	254,083
Total environmental liabilities	$ 757,389	$ 796,207

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

Note 8. Employee Related and Other Liabilities

As of September 30, 2011 and 2010, FAA's employee related and other liabilities were:

	2011		
	Non-current liabilities	Current liabilities	Total
Intragovernmental			
Advances received	$ —	$ 40,536	$ 40,536
Accrued payroll & benefits payable to other agencies	—	86,111	86,111
Other liabilities	—	41,498	41,498
Liabilities covered by budgetary or other resources	—	168,145	168,145
Federal Employees' Compensation Act payable	117,528	90,990	208,518
Other	—	29,297	29,297
Liabilities not covered by budgetary or other resources	117,528	120,287	237,815
Intragovernmental total	117,528	288,432	405,960
With the public			
Advances received and other	—	110,381	110,381
Accrued payroll & benefits payable to employees	—	336,210	336,210
Liabilities covered by budgetary or other resources	—	446,591	446,591
Accrued unfunded annual & other leave & assoc. benefits	49,561	353,371	402,932
Sick leave compensation benefits for eligible employees	66,145	52,465	118,610
Capital leases (Note 9)	84,933	21,379	106,312
Legal claims	—	66,200	66,200
Other accrued liabilities	13,769	—	13,769
Liabilities not covered by budgetary or other resources	214,408	493,415	707,823
Public total	214,408	940,006	1,154,414
Total employee related and other liabilities	$ 331,936	$ 1,228,438	$ 1,560,374

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

Accrued payroll and benefits to other agencies consist of FAA contributions payable to other Federal agencies for employee benefits. These include FAA's contributions payable toward life, health, retirement benefits, Social Security, and matching contributions to the Thrift Savings Plan.

An unfunded liability is recorded for the actual cost of workers' compensation benefits to be reimbursed to the DOL, pursuant to the FECA. Because DOL bills FAA two years after it pays such claims, FAA's liability accrued as of September 30, 2011, includes workers' compensation benefits paid by DOL during the periods July 1, 2009, through June 30, 2011, and accrued liabilities for the quarter July 1, 2011, through September 30, 2011. FAA's liability accrued as of September 30, 2010, included workers' compensation benefits paid by DOL during the period July 1, 2008, through June 30, 2010, and accrued liabilities for the quarter July 1, 2010, through September 30, 2010.

The estimated liability for accrued unfunded leave and associated benefits includes annual and other types of vested leave, and sick leave under the terms of certain union agreements that provide all bargaining unit employees, who are covered under FERS, the option to receive a lump sum payment for 40 percent of their accumulated sick leave as of their effective retirement date. Based on sick leave balances, this estimated liability was $118.6 million and $83.4 million as of September 30, 2011 and 2010, respectively.

FAA estimated that 100 percent of its $66.2 million and $72.2 million legal claims liabilities as of September 30, 2011 and 2010, respectively, would be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Treasury.

Other Accrued Liabilities with the Public is composed primarily of accruals for utilities, leases, and travel. Total liabilities not covered by budgetary resources are presented in Note 15.

Note 9. Leases

Capital Leases

Following is a summary of FAA's assets under capital lease as of September 30, 2011 and 2010:

	2011	2010
Land, Buildings, and Machinery	$ 184,777	$ 204,581
Accumulated Depreciation	(90,139)	(104,678)
Assets Under Capital Lease, net	$ 94,638	$ 99,903

As of September 30, 2011, FAA's future payments due on assets under capital lease were:

Future payments due by fiscal year (Liabilities not covered by budgetary or other resources)	
Year 1 (FY 2012)	$ 9,721
Year 2 (FY 2013)	7,122
Year 3 (FY 2014)	6,833
Year 4 (FY 2015)	6,824
Year 5 (FY 2016)	6,824
After 5 Years	94,463
Less: Imputed interest	(25,475)
Total capital lease liability	$ 106,312

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

Operating Leases

FAA has operating leases for real property, aircraft, and telecommunications equipment. Future operating lease payments due as of September 30, 2011, were:

Fiscal year	
Year 1 (FY 2012)	$ 189,716
Year 2 (FY 2013)	152,477
Year 3 (FY 2014)	84,778
Year 4 (FY 2015)	63,532
Year 5 (FY 2016)	51,179
After 5 Years	164,579
Total future operating lease payments	$ $706,261

Operating lease expense incurred during the years ended September 30, 2011 and 2010 was $209.3 million and $204.1 million, respectively, including General Services Administration (GSA) leases that have a short termination privilege, but FAA intends to remain in the lease. The operating lease amounts due after five years do not include estimated payments for leases with annual renewal options. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.

Note 10. Federal Employee Benefits Payable

As of September 30, 2011 and 2010, FECA actuarial liabilities were $909.6 million and $908.7 million, respectively. The DOL calculates the FECA liability for DOT, and DOT allocates the liability amount to FAA based on actual workers' compensation payments to FAA employees over the preceding four years. FECA liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The estimated liability is not covered by budgetary or other resources and thus will require future appropriated funding.

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

FAA's four lines of business represent the programs reported on the Statement of Net Cost. Cost centers assigned to each line of business permit the direct accumulation of costs. Other costs that are not directly traced to each line of business, such as agency overhead, are allocated.

The following are net costs for the years ended September 30, 2011 and 2010 by strategic goal:

	For the Year Ended September 30, 2011				
	Strategic Goal Areas				
	Safety	Capacity	Organizational Excellence	International Leadership	Total
Line of business programs					
Air Traffic Organization	$ 8,597,694	$ 2,742,298	$ 191,753	$ 19,638	$ 11,551,383
Aviation Safety	1,317,736	797	8,769	1,330	1,328,632
Airports	1,779,062	1,609,289	340	—	3,388,691
Commercial Space Transportation	10,681	5,726	108	49	16,564
Non line of business programs					
Regions and center operations and other	245,465	5,769	150,773	1,451	403,458
Net cost	$ 11,950,638	$ 4,363,879	$ 351,743	$ 22,468	$ 16,688,728

	For the Year Ended September 30, 2010				
	Strategic Goal Areas				
Line of business programs	Safety	Capacity	Organizational Excellence	International Leadership	Total
Air Traffic Organization	$ 8,341,243	$ 2,661,195	$ 149,769	$ 24,589	$ 11,176,796
Aviation Safety	1,297,498	919	8,007	6,169	1,312,593
Airports	2,108,406	1,906,840	-	-	4,015,246
Commercial Space Transportation	11,974	3,066	-	-	15,040
Non line of business programs					
Regions and center operations and other	170,775	42,750	160,689	2,109	376,323
Net cost	$ 11,929,896	$ 4,614,770	$ 318,465	$ 32,867	$ 16,895,998

The following is FAA's distribution of FY 2011 and FY 2010 net costs by intra-governmental related activity versus with the public:

	For the Year Ended September 30, 2011		
	Intra-governmental	With the Public	Total
Line of business programs			
Air Traffic Organization			
Expenses	$ 2,361,257	$ 9,472,798	$ 11,834,055
Less earned revenues	(238,596)	(44,076)	(282,672)
Net costs	2,122,661	9,428,722	11,551,383
Aviation Safety			
Expenses	362,565	977,469	1,340,034
Less earned revenues	(2,095)	(9,307)	(11,402)
Net costs	360,470	968,162	1,328,632
Airports			
Expenses	33,480	3,355,232	3,388,712
Less earned revenues	—	(21)	(21)
Net costs	33,480	3,355,211	3,388,691
Commercial Space Transportation			
Expenses	4,395	12,169	16,564
Net costs	4,395	12,169	16,564
Non line of business programs			
Regions and center operations and other programs			
Expenses	160,329	659,722	820,051
Less earned revenues	(54,055)	(362,538)	(416,593)
Net costs	106,274	297,184	403,458
Net cost of operations			
Total expenses	2,922,026	14,477,390	17,399,416
Less earned revenues	(294,746)	(415,942)	(710,688)
Total net costs	$ 2,627,280	$ 14,061,448	$ 16,688,728

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

Note 12. Earmarked Funds

The FAA's earmarked funds are presented among two classifications: the first classification is comprised of the AATF and all related funds that receive funding from the AATF and includes the Operations Trust Fund, Grants-in-Aid for Airports, Facilities and Equipment, and Research Engineering and Development, all of which are funded exclusively by the AATF. The AATF classification also includes the Operations General Fund, which is primarily funded through transfers from Operations-AATF, but is additionally supplemented by the General Fund of the U.S. Treasury through annual appropriations. Because the Operations General Fund is primarily funded from the AATF, and because it is not reasonably possible to differentiate cash balances between those originally flowing from the AATF versus general fund appropriations, the Operations General Fund is presented as an earmarked fund. In addition, this note presents only the earmarked funds that retain available financing sources. As such, the balances in the PP&E fund, though funded from the Facilities and Equipment earmarked fund are reported as other funds and therefore are excluded.

The second classification of earmarked funds includes the Aviation Insurance Revolving Fund and Aviation User Fees.

Airport and Airway Trust Fund

The FAA's consolidated financial statements include the results of operations and financial position of the AATF. The U.S. Congress created the AATF with the passage of the *Airport and Airway Revenue Act of 1970*.

The Act provides a dedicated source of funding to the Nation's aviation system through the collection of several aviation-related excise taxes. The IRS collects these taxes on behalf of FAA's AATF. These taxes can be withdrawn only as appropriated by the U.S. Congress. Twice a month, Treasury estimates the amount collected and subsequently adjusts the estimates to reflect actual collections quarterly. The total taxes recognized in FY 2011 included OTA's estimate of $2.2 billion for the quarter ended September 30, 2011 and $2.4 billion for the quarter ended September 30, 2010.

As discussed in Note 1 E., FY 2011 excise tax revenue includes amounts certified as actual by the IRS for the first three quarters and amounts estimated by OTA for the fourth quarter. Excise taxes estimated by OTA in the 1st quarter understated amounts subsequently certified as actual by the IRS by $3.9 million, and understated amounts certified in the 2nd and 3rd quarters by $186.4 million and $175.1 million, respectively.

The following table summarizes the 4th quarter excise taxes accrued in the FAA's FY 2010 and 2009 financial statements and the amounts certified as actual by the IRS several months after the issuance of those financial statements:

	2010	2009
Estimates	$ 2,533,610	$ 2,790,689
Actuals	2,919,237	2,722,419
Under (Over) Accrual	$ 385,627	$ (68,270)

Other Earmarked Funds

- The FAA has authority under the Aviation Insurance Program to insure commercial airlines that may be called upon to perform various services considered necessary to the foreign policy interests of the United States, when insurance is not available commercially or is available only on unreasonable terms and conditions. The insurance issued, commonly referred to war-risk insurance, covers losses resulting from war, terrorism, or other hostile acts. FAA reported premium insurance revenues of $191.5 million and $136.7 million for the periods ended September 30, 2011 and 2010, respectively. The Aviation Insurance Program activity is reported below as other earmarked funds. The Aviation Insurance Program is discussed further at Notes 1.W. and 16.
- Aviation User Fees, commonly referred to as overflight fees, are charged to commercial airlines that fly in U.S. controlled air space, but neither take off nor land in the United States. The FAA reported overflight fees of $56.7 million and $52.9 million for the periods ended September 30, 2011 and 2010, respectively. Aviation User Fees activity is reported below as other earmarked funds.

Fiscal data as of, and for the years ended September 30, 2011 and 2010 are summarized in the following charts. Intra-agency transactions have not been eliminated in the amounts presented.

	2011		
	AATF	Other Earmarked Funds	Total Earmarked Funds
Balance Sheet			
Assets			
Fund balance with Treasury	$ 921,692	$ 2,350,243	$ 3,271,935
Investments, net	8,685,715	1,650,030	10,335,745
Accounts receivable, net	—	4,580,577	4,580,577
Other assets	—	3,545,293	3,545,293
Total assets	$ 9,607,407	$ 12,126,143	$ 21,733,550
Liabilities and net position			
AATF amounts due to FAA	$ 4,515,206	$ —	$ 4,515,206
Other liabilities	—	3,256,903	3,256,903
Unexpended appropriations	—	1,088,171	1,088,171
Cumulative results of operations	5,092,201	7,781,069	12,873,270
Total liabilities and net position	$ 9,607,407	$ 12,126,143	$ 21,733,550
Statement of net cost			
Program costs	$ 11,117,011	$ 4,496,141	$ 15,613,152
Less earned revenue:		-	
Aviation insurance premiums	—	(191,491)	(191,491)
Overflight user fees	—	(56,722)	(56,722)
Other revenue	—	(230,103)	(230,103)
Net cost of operations	$ 11,117,011	$ 4,017,825	$ 15,134,836
Statement of changes in net position			
Cumulative results beginning of period	$ 4,473,264	$ 7,102,760	$ 11,576,024
Non-exchange revenue:			
Passenger ticket tax	8,084,593	—	8,084,593
International departure tax	2,508,289	—	2,508,289
Investment income	194,223	—	194,223
Fuel taxes	530,572	—	530,572
Waybill tax	426,703	—	426,703
Tax refunds and credits	(8,432)	—	(8,432)
Other revenue	—	18,861	18,861
Budgetary financing sources	—	4,813,752	4,813,752
Other financing sources	—	(136,479)	(136,479)
Unexpended appropriations	—	1,088,171	1,088,171
Net cost of operations	(11,117,011)	(4,017,825)	(15,134,836)
Change in net position	618,937	1,766,480	2,385,417
Net position end of period	$ 5,092,201	$ 8,869,240	$ 13,961,441

	2010		
	AATF	Other Earmarked Funds	Total Earmarked Funds
Balance Sheet			
Assets			
Fund balance with Treasury	$ 881,730	$ 2,972,163	$ 3,853,893
Investments, net	7,078,432	1,506,188	8,584,620
Accounts receivable, net	—	3,580,596	3,580,596
Other assets	—	3,164,342	3,164,342
Total assets	$ 7,960,162	$ 11,223,289	$ 19,183,451
Liabilities and net position			
AATF amounts due to FAA	$ 3,486,898	$	$ 3,486,898
Other liabilities	—	2,968,636	2,968,636
Unexpended appropriations	—	1,151,893	1,151,893
Cumulative results of operations	4,473,264	7,102,760	11,576,024
Total liabilities and net position	$ 7,960,162	$ 11,223,289	$ 19,183,451
Statement of net cost			
Program costs	$ 10,220,422	$ 4,644,002	$ 14,864,424
Less earned revenue:			
Aviation insurance premiums	—	(136,715)	(136,715)
Overflight user fees	—	(52,649)	(52,649)
Other revenue	—	(173,410)	(173,410)
Net cost of operations	$ 10,220,422	$ 4,281,228	$ 14,501,650
Statement of changes in net position			
Cumulative results beginning of period	$ 3,899,318	$ 7,337,075	$ 11,236,393
Non-exchange revenue:			
Passenger ticket tax	7,261,070	—	7,261,070
International departure tax	2,324,017	—	2,324,017
Investment income	181,415	—	181,415
Fuel taxes	651,475	—	651,475
Waybill tax	395,119	—	395,119
Tax refunds and credits	(18,728)	—	(18,728)
Other revenue	—	35,379	35,379
Budgetary financing sources	—	5,076,129	5,076,129
Other financing sources	—	(1,064,595)	(1,064,595)
Unexpended appropriations	—	1,151,893	1,151,893
Net cost of operations	(10,220,422)	(4,281,228)	(14,501,650)
Change in net position	573,946	917,578	1,491,524
Net position end of period	$ 4,473,264	$ 8,254,653	$ 12,727,917

Note 13. Imputed Financing Sources

FAA recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. Amounts paid from the U.S. Treasury's Judgment Fund in settlement of claims or court assessments against FAA are also recognized as imputed financing. For the fiscal years ended September 30, 2011 and 2010, imputed financing was as follows:

	2011	2010
Office of Personnel Management	$ 680,172	$ 583,690
Treasury Judgment Fund	44,200	15,411
Total imputed financing sources	$ 724,372	$ 599,101

Note 14. Statement of Budgetary Resources Disclosures

The Required Supplementary Information section of this report includes a schedule of budgetary resources by each of FAA's major fund types. Budget authority as reported in the Combined Statements of Budgetary Resources includes amounts made available to FAA from general, earmarked and special funds. In contrast, appropriations received as reported in the Consolidated Statements of Changes in Net Position pertain only to amounts made available to FAA from general funds. The following is a reconciliation of these amounts:

	2011	2010
Combined Statement of Budgetary Resources – budget authority	$ 19,545,132	$ 19,041,737
Less amounts made available to FAA from AATF dedicated collections	(14,473,622)	(13,590,433)
Net transfers of budget authority and other	(40,760)	(48,627)
Less special fund aviation user fees	(56,722)	(52,649)
Consolidated Statement of Changes in Net Position – appropriations received	$ 4,974,028	$ 5,350,028

FAA had rescissions of budgetary resources of $10M to Operations in FY 2011 and $394M to Grant-in-Aid to Airports in FY 2010.

As of September 30, 2011 and 2010, the amount of budgetary resources obligated for undelivered orders was $8.2 billion and $8.6 billion, respectively.

Budget authority on the FY 2011 Combined Statement of Budgetary Resources includes contract authority of $3.5 billion and expired funds of $57.0 million that are not presented in the Budget of the United States Government. Also, obligations incurred on the FY 2010 Combined Statement of Budgetary Resources includes $50.0 million of expired funds and $751.0 million of certain reimbursable and revolving fund obligations incurred that are not presented in the Budget of the United States Government. As a result, FAA's FY 2010 Combined Statement of Budgetary Resources differs from FY 2010 "actuals" reported in the appendix of the *FY 2011 Budget of the United States Government*. (The Budget of the United States Government is available on the Internet at **www.whitehouse.gov/omb**.) As of the date of issuance of FAA's FY 2011 Combined Statement of Budgetary Resources, the Budget of the United States Government for FY 2013, which will contain "actual" FY 2011 amounts, was not yet published. The Office of Management and Budget is expected to publish this information early in calendar year 2012.

Statement of Budgetary Resources vs Budget of the United States Government:

	Budgetary Authority	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
FAA Combined Statement of Budgetary Resources	$ 19,043,000	$ 20,969,000	$ (12,776,000)	$ 16,022,000
Reconciliation to Budget of the United States Government:				
Liquidation of Contract Authorization	(3,000,000)			
Expired Funds	(8,000)	(50,000)		
Rescissions	(394,000)			
Aviation User Fees	(50,000)			
Reimbursable Funds		(751,000)		
Obligation from Trust Funds		(4,000,000)		
Distributed Offsetting Receipts			12,776,000	
Budget of the United States Government	$ 15,591,000	$ 16,168,000	$ —	$ 16,022,000

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

- Congress mandated permanent indefinite appropriations for the Facilities and Equipment, Grants-in-Aid, and Research, Development, and Engineering to fully fund special projects that were ongoing and spanned several years.
- FAA does not have obligations classified as "exempt from apportionment." However, during FY 2011 and FY 2010, direct and reimbursable obligations incurred against amounts apportioned under categories A and B, as defined in OMB Circular No. A-11, Part 4, *Instructions on Budget Execution*, were as follows:

	2011		2010	
	Direct	Reimbursable	Direct	Reimbursable
Category A	$ 5,117,499	$ 439,849	$ 4,574,348	$ 545,209
Category B	15,748,162	240,131	15,643,890	206,271
Total	$ 20,865,661	$ 679,980	$ 20,218,238	$ 751,480

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent years until expiration, upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available. At the end of FY 2010, $60.2 million of obligated balances were in appropriations cancelled at year-end pursuant to 31 U.S.C. 1552 and thus have not been brought forward to FY 2011. Additionally, transfers in FY 2011 to DOT for Essential Air Services also reduced balances available for obligation.

Note 15. Financing Sources Yet to Be Provided

The following table shows the relationship between liabilities not covered by budgetary or other resources as reported on the balance sheets as of September 30, 2011 and 2010, and the change in components of net cost of operations that will require or generate resources in future periods.

	2011	2010	Change
FECA actuarial (Note 10)	$ 909,616	$ 908,676	$ 940
Sick leave compensation benefits (Note 8)	118,610	83,354	35,256
Increases – components of net cost of operations requiring or generating resources in future periods (Note 17)			36,196
FECA payable (Note 8)	208,518	211,399	(2,881)
Legal claims (Note 8)	66,200	72,195	(5,995)
Unfunded annual & other leave & associated benefits (Note 8)	402,932	404,456	(1,524)
Capital Leases (Notes 8 and 9)	106,312	106,958	(646)
Environmental liabilities (Note 7 & 16)	757,389	796,207	(38,818)
Other accrued liabilities (Note 8)	43,066	85,905	(42,839)
Decreases – resources that fund expenses recognized in prior periods (Note 17)			(92,703)
Total liabilities not covered by budgetary resources	2,612,643	2,669,150	(56,507)
Total liabilities covered by budgetary resources	1,805,919	1,565,263	240,656
Total liabilities	$ 4,418,562	$ 4,234,413	$ 184,149

Note 16. Commitments, Contingencies, and Other Disclosures

Reauthorization. Effective October 1, 2011, FAA is operating under a continuing resolution (CR), Public Law 112-36, for its funding. The CR will be in effect through November 18, 2011.

In addition, FAA is also operating under a short-term extension of its authorization, Public Law 112–30, *The Surface and Air Transportation Programs Extension Act of 2011*. This authorization, which is in effect through January 31, 2012, provides many of FAA's programmatic and financing authorities, including Airport Improvement Program contract authority and the authority to collect excise taxes into and make expenditures from the AATF. Without legislative actions these authorities will expire after January 31, 2012. FAA is the subject of several legislative reauthorization proposals in Congress. The outcome of future legislative and executive negotiation of these matters is uncertain.

Airport Improvement Program. The Airport Improvement Program provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements related to enhancing airport safety, capacity, security, and environmental concerns. FAA's share of eligible costs for large and medium primary hub airports is 75 percent with the exception of noise program implementation, which is 80 percent. For remaining airports (small primary, reliever, and general aviation), FAA's share of eligible costs is 95 percent.

The FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into a series of annual Airport Improvement Program grant agreements. FAA records an obligation when a grant is awarded. Through September 30, 2011, FAA issued letters of intent beginning in FY 1988 and extending through FY 2026 totaling $7.5 billion. As of September 30, 2011, FAA had obligated $5.5 billion of this total amount, leaving $2.0 billion unobligated.

Through September 30, 2010, FAA issued letters of intent beginning FY 1988 and extending through FY 2026 totaling $6.5 billion. As of September 30, 2010, FAA had obligated $5.2 billion of this total amount, leaving $1.3 billion unobligated.

Aviation Insurance Program. The FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations for which commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce, national security, and the foreign policy of the United States. FAA may issue (1) non-premium insurance, and (2) premium insurance for which a risk-based premium is charged to the air carrier, to the extent practical.

During FY 2011, the FAA provided premium war-risk insurance to 55 airlines. For these airlines, combined hull and liability per occurrence coverage limits range from $100 million to $4 billion. FAA also provided non-premium war-risk insurance to 36 carriers with 1,590 aircraft for Department of Defense charter operations for Central Command.

As of September 30, 2011, there are no pending aviation insurance claims. There is approximately $1.7 billion available in the Aviation Insurance Revolving Fund to pay claims to carriers covered by premium insurance. If premium insurance claims should exceed that amount, additional funding could be appropriated from the General Fund. The Department of Defense and State Department have agreed to pay claims to the carriers covered by non-premium insurance.

Legal Claims. As of September 30, 2011 and 2010, the FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at $86.6 million and $87.0 million, respectively. There are other claims that could result in significant pay-outs; however, it is not possible at this time to determine the probability of an unfavorable outcome, or to determine an estimate of potential loss for these matters, if any.

Environmental Liabilities. As of September 30, 2011, the FAA has estimated contingent liabilities, categorized as reasonably possible of $158.6 million related to environmental remediation. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions or uncertainties within a defined project scope.

Note 17 Reconciliation of Net Cost of Operations to Budget

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

	2011	2010
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 21,545,641	$ 20,969,718
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	5,925,058	5,234,148
Obligations, net of offsetting collections	15,620,583	15,735,570
Other resources		
Donations and forfeitures of property	—	452
Transfers in/(out) without reimbursement	(4,234)	—
Imputed financing from costs absorbed by others	724,372	599,101
Other	(24,980)	—
Net other resources used to finance activities	695,158	599,553
Total resources used to finance activities	**16,315,741**	**16,335,123**
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet received	(428,847)	(96,089)
Resources that fund expenses recognized in prior periods (decreases in unfunded liabilities) (Note 15)	92,703	28,327
Resources that finance the acquisition of assets	1,323,520	1,116,624
Other resources or adjustments to net obligated resources that do not affect net cost of operations	328	5,548
Total resources used to finance items not part of net cost of operations	987,704	1,054,410
Total resources used to finance net cost of operations	**15,328,037**	**15,280,713**
Components of net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods		
Increases in annual leave liability and other unfunded liabilities (Note 15)	36,196	45,293
Components not requiring or generating resources in future periods		
Depreciation and amortization	1,042,979	1,092,130
Other	281,516	477,862
Total components of net cost of operations that will not require or generate resources	1,324,495	1,569,992
Total components of net cost of operations that will not require or generate resources in the current period	1,360,691	1,615,285
Net cost of operations	$ 16,688,728	$ 16,895,998

The accompanying notes are an integral part of these statements.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
STEWARDSHIP INVESTMENT
NON FEDERAL PHYSICAL PROPERTY
AIRPORT IMPROVEMENT PROGRAM
For the Fiscal Years Ended September 30
Unaudited

State/Territory	2011	2010	2009	2008	2007
Alabama	$ 41,267	$ 70,995	$ 88,006	$ 53,568	$ 58,006
Alaska	185,504	217,745	258,493	228,082	238,486
Arizona	81,577	74,873	81,016	87,839	64,170
Arkansas	58,152	44,485	41,746	40,313	41,002
California	242,701	330,976	257,045	402,378	377,060
Colorado	115,029	112,610	127,959	54,327	95,914
Connecticut	20,654	29,152	36,016	13,388	8,279
Delaware	8,240	11,841	15,112	11,163	12,109
District of Columbia	7,862	20,336	19,052	5,652	47,131
Florida	143,266	198,920	209,747	157,214	209,219
Georgia	84,877	62,908	112,453	118,644	78,564
Hawaii	29,391	32,954	81,303	41,556	74,179
Idaho	21,529	19,925	26,444	21,905	22,307
Illinois	120,826	123,683	126,249	116,104	197,470
Indiana	68,204	65,839	63,444	66,825	57,649
Iowa	31,191	40,461	30,776	37,843	33,501
Kansas	24,293	55,251	43,475	22,059	32,735
Kentucky	25,941	43,532	47,411	32,981	62,393
Louisiana	63,079	94,206	66,617	58,036	66,659
Maine	26,882	29,465	21,130	26,631	24,413
Maryland	21,000	23,741	26,262	30,575	52,523
Massachusetts	55,491	77,362	77,193	42,092	30,217
Michigan	85,698	126,271	95,534	121,795	99,889
Minnesota	54,819	81,733	62,844	68,027	64,822
Mississippi	60,065	47,301	43,608	69,768	69,488
Missouri	38,719	105,807	79,620	104,980	91,667
Montana	36,530	41,271	44,214	28,997	50,018
Nebraska	50,130	28,140	46,884	17,051	30,227
Nevada	45,926	60,035	62,106	51,045	58,106
New Hampshire	14,752	15,634	21,930	24,337	49,344
New Jersey	75,939	121,679	81,388	111,692	88,620
New Mexico	26,387	30,488	25,966	23,273	27,373

(continued on next page)

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION

STEWARDSHIP INVESTMENT
NON FEDERAL PHYSICAL PROPERTY
AIRPORT IMPROVEMENT PROGRAM

For the Fiscal Years Ended September 30
Unaudited

State/Territory	2011	2010	2009	2008	2007
New York	$ 93,252	$ 111,390	$ 111,873	$ 80,292	$ 121,806
North Carolina	77,725	109,685	105,959	97,242	70,696
North Dakota	23,127	26,195	21,948	19,395	26,433
Ohio	97,423	83,681	106,927	150,547	113,446
Oklahoma	41,488	46,774	49,832	33,975	40,475
Oregon	56,134	80,910	62,678	35,154	34,823
Pennsylvania	91,215	106,319	112,739	119,807	90,909
Rhode Island	8,059	20,554	7,441	13,177	24,985
South Carolina	56,367	45,763	42,403	34,553	24,614
South Dakota	29,846	32,330	32,142	29,557	24,161
Tennessee	75,136	101,234	96,655	76,141	96,290
Texas	240,380	249,084	289,801	299,473	212,737
Utah	49,029	34,482	39,329	56,319	49,935
Vermont	26,103	21,628	8,179	6,234	10,234
Virginia	32,379	57,930	81,283	64,932	104,667
Washington	120,976	98,228	133,508	97,078	111,797
West Virginia	27,167	27,634	28,280	25,256	34,623
Wisconsin	65,061	78,599	61,043	48,781	50,008
Wyoming	22,845	34,190	25,486	19,323	18,687
American Samoa	12,315	6,650	9,273	5,195	9,732
Guam	11,952	19,574	38,245	18,683	29,920
Northern Mariana Island	10,502	14,420	8,678	12,151	20,024
Puerto Rico	6,569	12,019	20,625	16,578	9,760
Virgin Islands	16,076	7,602	3,698	6,892	4,732
Marshall Island	4,463	24,514			
Administration	127,202	124,454	115,902	96,965	74,685
Totals	$ 3,388,712	$ 4,015,462	$ 4,034,970	$ 3,753,840	$ 3,923,719

The FAA makes project grants for airport planning and development under the Airport Improvement Program to maintain a safe and efficient nationwide system of public-use airports that meets both present and future needs of civil aeronautics. The FAA works to improve the infrastructure of the nation's airports, in cooperation with airport authorities, local and state governments, and metropolitan planning authorities.

Department of Transportation
FEDERAL AVIATION ADMINISTRATION
STEWARDSHIP INVESTMENT
RESEARCH AND DEVELOPMENT
For the Fiscal Years Ended September 30
Unaudited

Expenses	2011	2010	2009	2008	2007
Applied Research	$ 129,954	$ 103,042	$ 95,764	$ 88,114	$ 102,782
Development	2,238	2,008	1,102	814	844
Administration	35,875	36,723	35,055	33,519	32,050
R&D Plant	5,848	5,590	3,381	3,498	4,217
Total	$ 173,915	$ 147,363	$ 135,302	$ 125,945	$ 139,893

The FAA conducts research and provides the essential air traffic control infrastructure to meet increasing demands for higher levels of safety, efficiency, and environmental improvement.

Research priorities include aircraft structures and materials; fire and cabin safety; crash injury protection; explosive detection systems; ground de-icing operations and decreased in-flight ice buildup; better tools to predict and warn of weather hazards, turbulence, and wake vortices; aviation medicine; and human factors. Human factors refer to research on how people (e.g., air traffic controllers and pilots) perform when interacting with, for example, technology and equipment, under various conditions. Optimizing this interaction contributes toward higher levels of safe air travel.

The following are some of the FAA's top FY 2011 research and development accomplishments.

- Researchers administered a comprehensive survey to all En Route and Terminal Front Line Managers. The survey assessed the utility, usability, and perception of the consolidated "Front Line Manager Quick Reference Guide" (FLM QRG) which was deployed to all En Route and Terminal facilities in 2010. Survey results will be used to update and improve the QRG, assist the FAA in the development of FLM training and reference materials, and serve as a baseline to assess out-year organizational impacts. Since its deployment the QRG has received positive internal and external feedback; it has also been referenced in Congressional testimonies.
- Researchers continued to address human factor issues related to electronic flight bags (EFBs) including developmental support of related policies and guidance. The EFB market continues to evolve, and the lines between Class 1, Class 2, and Class 3 EFBs are merging.

  Research included interviews and/or observations of commercial airline pilots to gather their perceptions of the EFB regarding the integration and use of EFBs in their operations. Additionally, usability evaluations were conducted to systematically identify potential human factor issues. The results of this research are summarized in a draft report to provide input to the FAA policymakers for consideration in their revision of AC 20-176A.
- Research was completed for the development of fire safety criteria for composite aircraft. Full-scale and small-scale fire tests were conducted to evaluate the toxic gases inside an intact aircraft subjected to a post crash fire. It was shown that a composite fuselage resists fuel fire penetration for more than five minutes (length of test) as compared to an aluminum alloy fuselage which will melt through in less than one minute. Moreover, the toxic gas concentrations were lower than measured inside an aluminum fuselage fitted with an insulation fire barrier to impart penetration resistance.

In a second set of tests, composite and aluminum wing fuel tanks were heated from above, as might occur on a hot sunny day. Fuel tank vapor concentrations and temperatures were measured during heating. When the fuel tanks were tested in a wind tunnel under simulated flight conditions, the composite fuel tank achieved higher temperatures and fuel vapor concentrations than the aluminum fuel tank during heating from above. However, air flow over the fuel tank in the wind tunnel caused rapid cooling and reduction in fuel vapor concentrations below the lower flammability limit. In addition, painting the tanks had a profound effect on the aluminum tank, which caused higher temperatures and fuel vapor concentrations comparable to the composite tank. The painted tanks also experienced rapid cooling and reduction of vapor concentrations in the wind tunnel. Thus, it appears that wing fuel tanks, regardless of construction material, can be vulnerable to a fuel tank explosion during a hot sunny day while on the ground and shortly after take-off.

- Over the past few decades, a number of uncontained aircraft engine failures have been traced to rare material anomalies in the rotating components of aircraft gas turbine engines. Since the occurrence rates are relatively small, a probabilistic approach is used to assess the risk of fracture including the potential risk reduction associated with non-destructive inspections. The associated risk of fracture can be predicted using a probabilistic fracture mechanics software tool called Design Assessment of Reliability With Inspection (DARWIN®). DARWIN® was developed by Southwest Research Institute supported by FAA R&D funding, in collaboration with four major gas turbine manufacturers. The current DARWIN® 7.2 software has enhanced analysis capabilities which include automatic zone generation, time-dependent fatigue crack growth assessment and parallel processing.

REQUIRED SUPPLEMENTARY INFORMATION

Department of Transportation
FEDERAL AVIATION ADMINISTRATION
SUPPLEMENTARY INFORMATION
DEFERRED MAINTENANCE
As of September 30, 2011
Unaudited

Category	Method	Asset condition*	Costs to return to acceptable condition
Buildings	Condition assessment	4&5	$ 61,607
Other structures and facilities	Condition assessment	4&5	$ 229,240

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

Verbiage is contained in the PAR document. This chart preceeds the written disclosure.

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

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

U. S. Department of Transportation

FEDERAL AVIATION ADMINISTRATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND TYPE

As of September 30, 2011

Unaudited

	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
BUDGETARY RESOURCES								
Unobligated balance brought forward and transfers	$ 4,297	$ 1,505,136	$ 56,504	$ 1,449,853	$ 130,231	$ 174,322	$ 1,562	$ 3,321,905
Recoveries of prior year obligations	143,610	114,379	30,498	3,144	25,838	150,285	18,668	486,422
Budget authority	7,065,000	2,736,203	170,019	—	—	4,974,028	4,599,882	19,545,132
Spending authority from offsetting collections	361	53,025	2,624	222,697	411,372	4,737,482	333	5,427,894
Nonexpenditure transfers, net	—	—	—	—	—	9,240	(50,000)	(40,760)
Temporarily not available	—	(5,472)	(340)	—	—	—	—	(5,812)
Permanently not available	(3,550,000)	(22,958)	(2,116)	—	—	(57,855)	—	(3,632,929)
Total Budgetary Resources	$ 3,663,268	$ 4,380,313	$ 257,189	$ 1,675,694	$ 567,441	$ 9,987,502	$ 4,570,445	$ 25,101,852
STATUS OF BUDGETARY RESOURCES								
Obligations incurred	$ 3,650,737	$ 2,900,695	$ 174,482	$ 3,758	$ 439,849	$ 9,825,315	$ 4,550,805	$ 21,545,641
Unobligated balances-available	9,095	1,364,117	51,529	48,897	121,144	75,730	1	1,670,513
Unobligated balances-not available	3,436	115,501	31,178	1,623,039	6,448	86,457	19,639	1,885,698
Total Status of Budgetary Resources	$ 3,663,268	$ 4,380,313	$ 257,189	$ 1,675,694	$ 567,441	$ 9,987,502	$ 4,570,445	$ 25,101,852
CHANGE IN OBLIGATED BALANCES								
Obligated balance, net, beginning of period	$ 4,932,755	$ 1,922,849	$ 185,165	$ 4,762	$ 163,838	$ 1,414,260	$ 319,384	$ 8,943,013
Obligations incurred	3,650,737	2,900,695	174,482	3,758	439,849	9,825,315	4,550,805	21,545,641
Gross Outlays	(3,216,771)	(2,817,755)	(181,128)	170	(458,642)	(9,624,666)	(4,803,272)	(21,102,064)
Recoveries of prior year obligations, actual	(143,610)	(114,379)	(30,498)	(3,144)	(25,838)	(150,285)	(18,668)	(486,422)
Change in uncollected customer payments from Federal sources	—	13,732	4,461	—	10,354	26,504	(160)	54,891
Obligated balance, net, end of period	$ 5,223,111	$ 1,905,142	$ 152,482	$ 5,546	$ 129,561	$ 1,491,128	$ 48,089	$ 8,955,059
OBLIGATED BALANCE, NET, END OF PERIOD								
Unpaid obligations	$ 5,223,167	$ 1,979,535	$ 158,257	$ 5,546	$ 142,659	$ 1,685,925	$ 48,023	$ 9,243,112
Uncollected customer payments from Federal sources	(56)	(74,393)	(5,775)	—	(13,098)	(194,797)	66	(288,053)
Total unpaid obligated balance, net end of period	$ 5,223,111	$ 1,905,142	$ 152,482	$ 5,546	$ 129,561	$ 1,491,128	$ 48,089	$ 8,955,059
NET OUTLAYS								
Gross outlays	$ 3,216,771	$ 2,817,755	$ 181,128	$ (170)	$ 458,642	$ 9,624,666	$ 4,803,272	$ 21,102,064
Offsetting collections	(361)	(66,759)	(7,085)	(222,697)	(421,725)	(4,763,985)	(173)	(5,482,785)
Distributed offsetting receipts		—	—	—	—	—	(10,742)	(10,742)
Net Outlays	$ 3,216,410	$ 2,750,996	$ 174,043	$ (222,867)	$ 36,917	$ 4,860,681	$ 4,792,357	$ 15,608,537

U. S. Department of Transportation

FEDERAL AVIATION ADMINISTRATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND TYPE

As of September 30, 2010

Unaudited

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

Other Accompanying Information

INSPECTOR GENERAL'S TOP MANAGEMENT CHALLENGES

The *Reports Consolidation Act of 2000* requires the Inspector General (IG) to identify and report each year on the most serious management and performance challenges that Federal agencies face. The report below, prepared by Department of Transportation's (DOT) IG, highlights urgent issues for the upcoming fiscal year (FY) for the DOT as a whole. Some challenges in the report apply specifically to the Federal Aviation Administration (FAA). In other challenges, our agency plays a support role to DOT. A chronology of the last five years of the DOT IG's FAA-related Top Management Challenges through FY 2012 is displayed below:

2008	2009	2010	2011	2012
Addressing long– and short–term challenges for operating, maintaining, and modernizing the NAS.	Operating the NAS while developing and transitioning to the NextGen Air Transportation System.	Moving toward the NextGen Air Transportation System and improving performance of the NAS.	Advancing the NextGen Air Transportation System while ensuring the safe and efficient operation of the NAS.	Managing the NextGen Air Transportation System advancement while controlling costs.
Continuing to make a safe aviation system safer.	Enhancing aviation safety and maintaining confidence in FAA's ability to provide effective oversight of a rapidly changing industry.	Addressing human factors and strengthening the regulatory oversight framework for aviation safety.	Maintaining momentum in addressing human factors and improving safety oversight of the aviation industry.	Ensuring effective oversight of key initiatives that can improve aviation safety.
Strengthening the protection of information technology resources, including the critical air traffic control system.	Protecting against increasing cyber security risks and enhancing the protection of personally identifiable information.	Enhancing the ability to combat cyber attacks and improving the governance of the information technology resources.	Improving the DOT's cyber security.	Improving the DOT's cyber security.
Managing acquisition and contract operations more effectively to obtain quality goods and services at reasonable prices.	Improving contract operations and maintaining procurement integrity.	Improving contract management and oversight / strengthening the DOT's acquisition workforce.	Implementing processes to improve the DOT's acquisitions and contract management.	Managing DOT acquisitions in a smarter and more strategic manner to maximize limited resources and achieve better mission results.
		Maximizing the DOT's economic recovery investments.	Ensuring transparency and accountability in the DOT's Recovery Act programs.	Ensuring effective oversight of ARRA projects and applying related lessons learned to improve DOT's infrastructure programs.

Only the FAA's identified challenges are discussed in this section. The areas identified by the IG as the most challenging for FAA in FY 2012 include:

Managing the Next Generation Air Transportation System Advancement While Controlling Costs

The FY 2012 NextGen-related management challenge adds the dimension of cost to NextGen implementation. The FY 2011 NextGen implementation challenge—"Advancing the Next Generation Air Transportation System While Ensuring the Safe and Efficient Operation of the National Airspace System"—implemented many improvements.

We continued to refine the integrated airspace and procedures concept. The goal is to ensure that the system works for everyone, including air traffic controllers (ATCs), pilots, airports, and the community. The Draft FAA Order, "Process for Development and Implementation of PBN Procedures and Routes," provides a standardized process for the development and implementation of performance-based navigation (PBN). The Administrator approved new benefit-focused PBN goals in February. These included integrating PBN projects in metroplex areas, expanding the number of high-altitude Required Area Navigation (RNAV) routes, and promoting PBN concepts globally.

The FAA estimates that nearly 11,000 new air traffic controllers will need to be hired and trained by FY 2019. Some of these new hires will be placed at complex facilities. In FY 2011, we met all hiring goals and certified more than 1,000 controllers. In order to staff NAS-critical facilities with experienced controllers, Terminal Services restricted placement of inexperienced new hires (such as from the general public and Collegiate Training Initiative hiring sources) at high-level facilities. Additionally, to encourage internal Certified Professional Controller movement to the critical facilities, the FAA offered Permanent Change of Station funds and relocation bonuses.

We deployed additional simulators and training equipment to the field to expand use of e-learning content delivery, enhanced the realism of training scenarios, and increase automation. The agency installed the SimFast terminal radar simulator at more than 50 locations that did not previously have access to a terminal radar simulator and deployed six additional Tower Simulator Systems to the field and the FAA Academy. Increasing the use of simulators for refresher training gives controllers the opportunity to hone air traffic skills and increase technical proficiency.

Our En Route Automation Modernization (ERAM) program is considered transformational and is necessary for the agency to sustain current en route operations, as well as facilitate deployment of planned NextGen capabilities. In the two previous fiscal years, we missed baseline milestones for In-Service Decision (ISD) and first and last site Operational Readiness Determination. However, in FY 2011 the ERAM team achieved a successful ISD. The FAA expects that ERAM will achieve initial operations (defined as IOC) at four to six additional sites by the end of CY 2011. This will begin the transition from initial through extended and on to continuous operations at these sites, following a site-benchmarking process.

A tiger team was established to determine improvements necessary to give the agency confidence in moving through the waterfall deployment of ERAM. This team, composed of bargaining unit employees, site personnel, and system and test engineers from the FAA and Lockheed Martin, developed a list of 117 issues needing correction prior to waterfall deployment. The 117 improvements were deployed in three software releases in FY 2011.

Ensuring Effective Oversight of Key Initiatives That Can Improve Aviation Safety

The DOT IG challenge in FY 2011 was similar: "Maintaining Momentum in Addressing Human Factors and Improving Safety Oversight of the Aviation Industry." The IG indicated that the FAA needed to advance industry and Government efforts to address pilot training and fatigue. The report also suggested that the FAA could do a better job identifying repair stations that perform safety-critical repairs.

The FAA took several actions to address pilot fatigue in 2011. These actions included:

- Issuing guidance to Part 121 air carriers on the development and approval of fatigue risk management programs
- Contracting with the National Academy of Sciences for a study on the effects of commuting on pilot fatigue
- Issuing proposed new regulations for flight and duty limitations and rest requirements for Part 121 air carrier operations.

In response to the IG's finding related to FAA's oversight of repair stations performing safety-critical repairs, the FAA demonstrated to the Office of the Inspector General an Air Transportation Oversight System (ATOS) software capability that can track and reschedule inspections that were not completed due to resource constraints. The Flight Standards National Field Office is now tracking and trending uncompleted ATOS inspections to strengthen its oversight of these inspections at the national level.

A related action pertains to the new category of safety-critical maintenance, termed "essential maintenance." Inspectors must perform an initial inspection of essential maintenance providers, followed by recurring inspections every three years. The FAA is also using a software tool, the Oversight Prioritization Tool, to identify resources for repair station inspections. FAA additionally published an advisory circular on contract maintenance best practices.

Improving the DOT's Cyber Security

This FY 2012 DOT IG Top Management Challenge is the same as the FY 2011 challenge. During FY 2011, the DOT and the FAA Cyber Security Management Center provided security incident reporting, scanning results, and regular vulnerability assessments to FAA organizations. These organizations completed certification and accreditation of 70 systems by the triennial anniversary review date, as well as 222 annual assessments.

We are actively establishing appropriate administrative, technical, and physical safeguards, such as those reflected in our multi-phase Social Security Number (SSN) reduction/elimination plan. The second phase ensures that digitally sensitive Personally Identifiable Information (PII) on FAA networks is identified and protected from misuse or activities that violate DOT policies. Also this year, the FAA Office of Security & Hazardous Materials (ASH) completed issuance of Personal Identity Verification (PIV) cards to 64,470 out of 69,804 employees who require them.

We required individuals who handle PII to sign for receipt of a statement on "Privacy Rules of Behavior" and we are currently 85 percent compliant with the OMB privacy mandate. Additionally, we conducted an extensive review of privacy policies, processes, and procedures to assess compliance with appropriate laws and mandates.

The FAA is implementing a suite of cyber protection mechanisms for the NAS that do not rely solely on the static, signature-based detection mechanism, the Intrusion Detection System. Our organizations are engaged in the review of records management practices to identify records that require archiving or destruction in accordance with approved records retention policies.

Managing DOT Acquisitions In a Smarter and More Strategic Manner to Maximize Limited Resources and Achieve Better Mission Results

In FY 2011, the FAA made many positive strides in addressing a similar FY 2011 challenge: "Implementing Processes to Improve the Department's Acquisitions and Contract Management." Our actions will allow us to sustain high performance in managing acquisitions through sufficient staffing and a skilled and certified acquisition workforce.

Effective training, management controls, and oversight encourage the proper selection of contract types and effective administration of FAA contracts. In the area of training:

- We continued training and education for Contracting Officers, Contracting Officer's Technical Representatives, and Program Managers, training and education aimed at developing knowledge, skills, and abilities to determine which type of contract is most appropriate and how to properly give and administer FAA awards. In FY 2011, 457 FAA personnel were trained in 17 focused acquisition training programs.
- The Cost/Price Analysis Support Group provided focused training sessions to contract specialists, detailing how to select contract types effectively and analyze associated data and risks.
- The Office of the Chief Counsel, Acquisition and Commercial Law Division, created three separate training modules focused on Contract Fraud and Abuse, Controlling Contract Waste, and Suspension and Debarment.

The National Acquisition Evaluation Program reviewed 225 awards made by FAA in FY 2011 to measure its compliance with applicable policy and the accuracy of contract reporting. Also this year, the National Acquisition Evaluation Group began providing FAA's Acquisition Executive with a monthly summary of all awards made by the agency.

The first draft of the FY 2011 Acquisition Workforce Plan was completed by the end of June and just three months later the final draft was completed. We also developed effective recruiting strategies to identify, recruit, and hire acquisition workforce professionals. Additionally, the staffing model tool was advanced to include data from approximately 150 Capital Investment Plan programs.

The agency prepared career planning, development, and resource guides for employees to use for their own guidance and for managers to use in providing career counseling to their employees. An acquisition workforce community of practice portal was initiated to create a forum for sharing best practices, provide guidance and tools to support career development, and link to certification requirements and applications.

Ensuring Effective Oversight of ARRA Projects and Applying Related Lessons Learned to Improve DOT's Infrastructure Programs

FY 2012 ARRA challenges advance efforts in support of the defined FY 2011 management challenge: "Ensuring Transparency and Accountability in The Department's Recovery Act Programs." FY 2011 actions address collection of quality data from award recipients and oversight of ARRA projects and expenditures.

Section 1512 of the Recovery Act requires grant and contract recipients to report accurate data. The quarterly reporting requirement is published on **FederalReporting.gov**, a standardized, centralized data collection point developed by the Office of Management and Budget (OMB). This year, we used this Web site to obtain daily data extracts to ensure full reporting compliance and to validate recipient data, program financial information, program schedule status and description, compensation information for corporate officers, and job numbers and descriptions.

Both our Air Traffic Organization (ATO) facility upgrade projects and the progress of our Airports (ARP) grant projects progress were evaluated through a variety of weekly and monthly meetings, intensive reporting requirements, and extensive use of existing program resources at both national and local levels.

We hired an outside contractor in October 2010 to expand the existing FAA Airports Grant Risk Model specifically for ARRA grantees, as well as perform a sample audit of grantees for compliance with program requirements and improper payments.

We also reviewed the ARP workload associated with the issuance and oversight of Federal funds in three areas: 1) process standardization, 2) process reengineering with increased automation, and 3) additional staff.

ATO projects were tracked through the Corporate Work Plan System, which maintains program schedule plans and records of actual accomplishments for each project location.

Management Response

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

The DOT IG report on the FY 2011 and FY 2012 Top Management Challenges can be found at: **http://www.oig.dot.gov/top-management-challenges.**

Detailed reports on FAA's actions in response to the FY 2011 DOT IG's Top Management Challenges can be found at **http://www.faa.gov/about/office_org/headquarters_offices/aba/media/FY11IGMgmtChallengesATR.pdf**.

SUMMARY OF AUDIT RESULTS AND MANAGEMENT ASSURANCES

Financial Statement Audit Summary

Table 1 is a summary of the results of the independent audit of the FAA's consolidated financial statements by the FAA's auditors in connection with the FY 2011 audit.

TABLE 1: SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion			FY 2011-unqualified		
			FY 2010-unqualified		
Restatement			No		
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

Management Assurances Summary

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

TABLE 2: SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified statement of assurance					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

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

Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Conformance of FAA's core financial management system, Delphi, is assessed and reported by the Department of Transportation.	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. USSL at Transaction Level	Yes	

IPIA (as amended by IPERA) Reporting Details

I. **Risk Assessment.** As part of the FY 2011 Improper Payments Review, conducted in compliance with the *Improper Payments Elimination and Recovery Act* (IPERA) and OMB *Circular A-123, Appendix C*, the DOT and the FAA performed a Programmatic Improper Payment Risk Assessment to determine which FAA Programs require a statistically valid extrapolated improper payment estimate.

FAA's Programmatic Improper Payment Risk Assessment leverages the Assessable Unit (AU) Risk Profiles compiled as part of ongoing compliance with the FMFIA.

The AU Risk Profiles rate the various areas of internal control either "high," "medium," or "low." After assigning numerical values to these three risk ratings, FAA determined that programs with AU Risk Profiles that reported average internal control risk ratings of "low" or "medium" did not warrant additional review, except for the Airport Improvement Program (AIP).

In the case of FAA's AIP, none of the AU risk averages identified a "high" level of internal control risk. However, the FAA determined that the volume of payments made annually, approximately $4 billion for FAA AIP, coupled with the fact that federal funds within these programs are further administered outside the agency by local governments or airport sponsors, necessitated an individual improper payment estimate.

II. **Statistical Sampling.** To adhere to IPIA requirements, the DOT and FAA engaged a contractor to develop nationwide sampling plans, test sampled invoice line items for improprieties, and extrapolate nationwide improper payments estimates for the AIP grant program. The FY 2011 sample of tested line items originated from Federal disbursements to grantees for the twelve-month period April 1, 2010 through March 31, 2011.

The IPIA sampling methodology involved a multi-staged statistical approach that included the selection of 102 Federal disbursements totaling $175.9 million and 177 line items from supporting invoices totaling $41.2 million. A statistician designed the sample to extrapolate a nationwide estimate of improper payments. While this sample provides an improper payment estimate for the AIP as a whole, this sample does not support an estimate for individual states or airport sponsors.

Improper payments totaling $13,814 were found in the sample. The projection of known improper payments to the population of program payments for the twelve-month period results in an improper payment estimate of $34.6 million. The estimated improper payment rate is less than one percent and does not meet OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

III. **Corrective Actions.**

a. **AIP.** Reported improper payments resulted from non-systemic administrative, and documentation errors. As a result, FAA will advise grantees regarding the importance of maintaining documentation for programmatic reviews and audits.

b. **Fund Stewardship.** In order to maintain these low rates of improper payments, FAA stresses the importance of proper fund stewardship with its grant recipients via various grantee review programs. FAA promotes proper fund stewardship through a continuous grant and sponsor oversight process throughout the duration of the grant. FAA receives quarterly reports on each grant to assess sponsor performance under every grant agreement. On a broader level, FAA uses a risk-based approach that increases the level of review of sponsor documentation depending on the risk level of the grantee and their prior performance.

IV. Improper Payment Reporting.

IMPROPER PAYMENT REDUCTION OUTLOOK															
Program	PY Outlays ($M)	PY IP%	PY IP$ ($M)	CY Outlays ($M)	CY IP%	CY IP$ ($M)	CY+1 Est. Outlays ($M)	CY+1 IP%	CY+1 IP$ ($M)	CY+2 Est. Outlays ($M)	CY+2 IP%	CY+2 IP$ ($M)	CY+3 Est. Outlays ($M)	CY+3 IP%	CY+3 IP$ ($M)
FAA Airport Improvement Program	$4,024	0.03%	$1.3	$3,906	0.89%	$34.6	$3,613	0.75%	$27.1	$3,018	0.50%	$22.6	$2,572	0.50%	$12.9

V. Recapture of Improper Payments Reporting. DOT's contract recovery auditor worked to recover any FAA overpayments and identify payment process weaknesses. The recovery auditors did not identify any systemic payment process weaknesses. The overpayments were of such immaterial amounts that it was not considered cost-effective to break them down by agency and therefore, they were reported at the departmental level (in DOT's PAR).

VI. Accountability. DOT and FAA have implemented various grantee review programs, as highlighted in PART III of this IPIA Reporting Details Section, to hold states and local agencies accountable for improper payments. FAA uses a vast network of regional offices to ensure that FAA maintains regular communication with grantees as well as state and local officials. This constant communication, along with the aid of grantee staff, has allowed us to not only maintain a low rate of improper payments, but also achieve success in recapturing payments identified as both improper and recoverable.

VII. Agency information systems and other infrastructure. FAA currently possesses the internal controls, human capital, and information systems necessary to maintain improper payments levels at the targeted programmatic rates.

ADMINISTRATIVE SERVICES FRANCHISE FUND

Background

Public Law 104-205, *Department of Transportation and Related Agencies Appropriation Act of 1997*, authorized the FAA to establish an Administrative Services Franchise Fund (Franchise Fund). The Franchise Fund is designed to create competition within the public sector in the performance of a wide variety of support services. It allows for the establishment of an environment to maximize the use of internal resources through the consolidation and joint-use of like functions and the recognition of economies of scale and efficiencies associated with the competitive offering of services to other government agencies.

The FAA's Franchise Fund is composed of several programs, within which it offers a wide variety of services. These services include accounting, travel, duplicating, multi-media, information technology, logistics and material management, aircraft maintenance, international training and management training. The Franchise Fund's major customers are FAA lines of business programs. Other customers include Department of Transportation (DOT) entities, non-DOT government agencies, and international government entities.

Description of Programs and Services

Several programs within the Franchise Fund are organized around an **Enterprise Services Center** (ESC) concept, designed to integrate the key components necessary to be a full service financial management provider. The efficiencies and economies of scale created by this integration offer the opportunity to compete for customers seeking a provider of financial management services. As new customers come on board, this further reduces the cost of providing the services by spreading the fixed cost of operations over a larger customer base. There are three components of the ESC, all falling within the single Franchise Fund:

- Enterprise System-configuration and support of application software and databases
- Financial Operations-transaction processing, financial reporting, and analysis services

- Information Technology-hosting, telecommunications, information system security, and end user support services

During FY 2005, OMB selected ESC as a Financial Management Center of Excellence (COE). As a COE, the ESC now has the ability to compete to provide financial management services for other government agencies. The ESC currently provides financial management services to all DOT agencies, the National Endowment for the Arts, Commodity Futures Trading Commission, Institute of Museum and Library Services, and the United States Government Accountability Office and also has several proposals out to other agencies.

In addition to being selected as a COE, the ESC was chosen by the FAA Administrator to serve as the consolidated provider of all financial management services for all FAA organizations. The ESC committed to providing an improved level of service, meeting all Joint Financial Management Improvement Program (JFMIP) requirements.

The Franchise Fund also includes the following program areas:

The **Aircraft Maintenance and Engineering Group** in the office of Aviation System Standards is located at the Mike Monroney Aeronautical Center (Aeronautical Center) in Oklahoma City. It provides total aircraft support including maintenance, quality assurance, and overall program management. This service includes preventative as well as repair/overhaul and/or modification requirements and reliability and maintainability studies. The Aircraft Maintenance and Engineering Group can provide full or partial support depending on customer requirements, from short-term preventative maintenance or one time engineering tasks to more involved activities such as a full complement of maintenance services with quality assurance and engineering support.

The **Center for Management and Executive Leadership** (CMEL), located at Palm Coast, Florida, provides non-technical training in support of the FAA mission. The center designs and delivers face-to-face centralized training both onsite and at field locations. Students also complete more than 5,000 distance learning programs each year. CMEL is fully accredited with commendations by the Commission on Occupational Education, and the American Council on Education has determined that CMEL courses are worthy of upper division college credit. The Federal, professional, and local communities also recognize CMEL as a premier resource for leadership and teambuilding training.

The **International Training Division** (ITD) in the FAA Academy at the Aeronautical Center in Oklahoma City delivers technical assistance and training to enhance international aviation safety and security while promoting U.S. aviation system technologies, products, and services overseas. The products and services of the ITD include training program management, instructional services, training design/development/revision, technical training evaluations, and consulting services tailored to meet specifically defined needs of the FAA and its international customers. Both CMEL and ITD are reported under the FAA Academy line of business on the *Revenue and Expenses* report.

The **FAA Logistics Center** also located at the Aeronautical Center provides comprehensive logistics support and a highly sophisticated level of maintenance and repair services to ensure the safety of the flying public and to satisfy the critical needs of the national airspace system and related requirements. Services include materiel management (e.g., provisioning, cataloging, acquisition, inventory management, inventory supply), reliable and cost-effective depot-level repair of line replaceable units, life cycle and performance cost analysis, logistics automation, distribution services, disposal of items no longer required, and technical support in the repair and maintenance of national airspace and related equipment.

Department of Transportation
FEDERAL AVIATION ADMINISTRATION

FRANCHISE FUND
CONDENSED INFORMATION
ASSETS, LIABILITIES, AND NET POSITION

(Dollars in Thousands)
Unaudited

	As of September 30	
	2011	**2010**
Assets		
Fund balance with Treasury	$ 257,152	$ 294,069
Accounts receivable, net	573	2,357
Inventory and related property, net	543,867	518,958
General property, plant, and equipment, net	24,705	29,612
Other	939	3,657
Total assets	$ 827,236	$ 848,653
Liabilities		
Accounts payable	$ 30,990	$ 27,793
Advances from others	153,416	198,519
Employee related	19,955	19,294
Other	1,929	4,387
Total liabilities	206,290	249,993
Net position		
Cumulative results of operations	620,946	598,660
Total net position	620,946	598,660
Total liabilities and net position	$ 827,236	$ 848,653

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION

FRANCHISE FUND
CONDENSED INFORMATION
REVENUES AND EXPENSES

(Dollars in Thousands)
Unaudited

	For the years ended September 30	
	2011	**2010**
Enterprise Services Center		
Revenues	$ 145,781	$ 145,585
Expenses	172,708	164,603
Profit (loss)	(26,927)	(19,018)
Aircraft Maintenance and Engineering Group		
Revenues	54,396	57,051
Expenses	60,482	66,872
Profit (loss)	(6,086)	(9,821)
FAA Academy		
Revenues	14,886	16,218
Expenses	17,358	15,789
Profit (loss)	(2,472)	429
FAA Logistics Center		
Revenues	343,783	301,613
Expenses	334,480	282,198
Profit (loss)	9,303	19,415
Acquisitions		
Revenues	8,706	8,637
Expenses	11,254	11,212
Profit (loss)	(2,548)	(2,575)
Total Consolidated		
Revenues	567,552	529,104
Expenses	596,282	540,674
Profit (loss)	$ (28,730)	$ (11,570)

U.S. Department of Transportation

FEDERAL AVIATION ADMINISTRATION

FRANCHISE FUND
CONDENSED INFORMATION
FINANCING SOURCES AND NET POSITION

(Dollars in Thousands)

Unaudited

	Cumulative results of operations	
	2011	**2010**
Beginning balance, net position	$ 598,660	$ 561,731
Financing sources		
Transfers-in/out without reimbursement	(16,760)	(11,961)
Imputed financing from costs absorbed by others	67,776	60,460
Total financing sources	51,016	48,499
Profit (loss)	(28,730)	(11,570)
Ending balance, net position	$ 620,946	$ 598,660

GLOSSARY OF ACRONYMS

ACRONYM	NAME
AATF	Airport and Airway Trust Fund
ACP	Aviation Cooperation Program
ADS-B	Automatic Dependent Surveillance-Broadcast
AEDT	Aviation Environment Design Tool
AIP	Airport Improvement Program
AOB	Actual on Board
AOPA	Aircraft Owners and Pilots Association
ARP	Airports (FAA Line of Business)
ARRA	American Recovery and Reinvestment Act
ARTCC	Air Route Traffic Control Center
ASDE-X	Airport Surface Detection Equipment-Model X
ASPIRE	Asia and Pacific Initiative to Reduce Emissions
AST	Commercial Space Transportation (FAA Line of Business)
ATC	Air Traffic Controller
ATM	Air Traffic Management
ATO	Air Traffic Organization (FAA Line of Business)
ATOS	Air Transportation Oversight System
ATSAP	Air Traffic Safety Action Program
AU	Assessable Unit
AVIATOR	Automated Vacancy Information Access Tool for Online Referral
AVS	Aviation Safety (FAA Line of Business)
BAC	Budget Estimate At Completion
BPA	Blanket Purchase Agreement
CAA	Civil Aeronautics Authority
CAAFI	Commercial Aviation Alternative Fuels Initiative
CAB	Civil Aeronautics Board
CAS	Cost Accounting System
CAST	Commercial Aviation Safety Team
CEAR	Certificate of Excellence in Accountability Reporting
CEMWG	Cyber Event Management Working Group
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act of 1990
CIO	Chief Information Officer
CIP	Capital Investment Program
CIS	Commonwealth of Independent States
CLEEN	Continuous Lower Energy, Emissions and Noise
CO	Contracting Officers
COE-CST	Center of Excellence for Commercial Space Transportation
COTS	Commercial off-the-Shelf
CPC	Certified Professional Controller
CSP	Centralized Selection Panel
CSMC	Cyber Security Management Center
DOL	Department of Labor
DOT	Department of Transportation
EO	Executive Order
ERAM	En Route Automation Modernization
EU	European Union
F&E	Facilities and Equipment
FAA	Federal Aviation Administration
FBWT	Fund Balance with Treasury
FEA	Federal Enterprise Architecture
FEMA	Federal Emergency Management Agency
FFMIA	Federal Financial Management Improvement Act
FIT	Financial Information Transformation
FMFIA	Federal Managers' Financial Integrity Act
FSI	Fatal and Serious Injury
FTI	FAA Telecommunications Infrastructure
FY	Fiscal Year
GA	General Aviation
GAJSC	General Aviation Joint Steering Committee
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
GPS	Global Positioning System
GPT	Grievance Processing Time
GRC	Governance Risk and Control
HOV	High-Occupancy Vehicle
IAD	International Aviation Development
ICAO	International Civil Aviation Organization
IDS	Intrusion Detection System
IFR	Instrument Flight Rules
IG	Inspector General
IOA	Independent Operational Assessment
IOC	Initial Operating Capability
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
ISD	In-Service Decision
ISSO	Information Systems Security Officer
IT	Information Technology
JAWS	Juneau Airport Wind System
JRC	Joint Resource Council
LOB	Line of Business
LPV	Localizer Performance with Vertical Navigation
MOA	Memorandum of Agreement
MW	Material Weakness
NAEP	National Acquisition Evaluation Program
NAS	National Airspace System
NASA	National Aeronautics and Space Administration
NATCA	National Air Traffic Controllers Association
NextGen	Next Generation Air Transportation System
NTSB	National Transportation Safety Board
OEP	Operational Evolution Partnership
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPD	Optimized Profile Descents
OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
PAR	Performance and Accountability Report
PBN	Performance-Based Navigation
PII	Personally Identifiable Information
PP&E	Property, Plant, and Equipment
PURE	Platform for Unified Reporting
R,E,&D	Research, Engineering, and Development
RNAV	Area Navigation
RNP	Required Navigation Performance
RSA	Runway Safety Areas
RSSI	Required Supplementary Stewardship Information
SAVES	Strategic Sourcing for the Acquisition of Various Equipment and Supplies
SEATAC	Seattle Takoma International Airport
SESAR	Single European Sky Air Traffic Management Research
SMS	Safety Management System
SRER	System Risk Event Rate
SSN	Social Security Number
STEM	Science, Technology, Engineering and Math
SWIM	System Wide Information Management
TBD	To Be Determined
TMA	Traffic Management Advisor
TOR	Technical Officer Representative
TVSRII	Terminal Voice Switch Replacement
TWA	Trans Continental and Western Air
UAS	Unmanned Aircraft System
USDA	U.S. Department of Agriculture
USSGL	U.S. Standard General Ledger
WAAS	Wide-Area Augmentation System

WE WELCOME YOUR COMMENTS

Thank you for your interest in the FAA's FY 2011 Performance and Accountability Report. We welcome your comments on how we can make this report more informative for our readers.

Please send your comments to

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

PHONE: 202–267–3018

EMAIL: Allison.Ritman@faa.gov

FAX: 202–493–4191

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

For a printed copy, call 202–267–3018 or email **Allison.Ritman@faa.gov**.

U.S. Department of Transportation
Federal Aviation Administration

800 Independence Avenue, SW
Washington, DC 20591

www.faa.gov

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