

ANNUAL REPORT 2004



WORKING
TOGETHER



Canadian Air Transport
Security Authority

Administration canadienne
de la sûreté du transport aérien

Canada 



WORKING
TOGETHER





CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the government of Canada.



For more information, visit our Web site at:

www.catsa-acsta.gc.ca

Contact us at:

Canadian Air Transport Security Authority
99 Bank Street, 13th Floor
Ottawa, Ontario K1P 6B9

Phone

1 (888) 294-2202

Fax

(613) 993-7626

E-mail

feedback@catsa-acsta.gc.ca

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MESSAGE FROM THE CHAIRMAN

The Canadian Air Transport Security Authority (CATSA), a Crown corporation, was created more than two years ago. Now in its third year, CATSA is achieving maturity as an institution.

Throughout its development, CATSA's focus has not changed. CATSA is a security organization, committed to keeping potential threats away from civilian airplanes and from Canada's airports.

In 2003-2004, CATSA spent the year enhancing the security of the travelling public by reaching out internationally while acting locally. Two major CATSA-sponsored conferences brought partners and experts from the "global village" to help CATSA think about its important mandate and how it was coping with the challenge of combating violent international terrorism that could be directed at civilian aircraft and at Canadian airports.

In January, 2004, CATSA's Board of Directors hosted the "Living with Risk" symposium. It was attended by leading security and risk experts from Canada, the United States, Europe and Australia. Participants had wide-ranging discussions about how 21st century societies might face the terrorist challenge, and how free societies could best manage and mitigate the risks associated with that challenge.

"Living with Risk" was followed by an international summit hosted by Jacques Duchesneau, CATSA's President and CEO. This summit focused on the operational challenges faced by many CATSA counterparts from around the world.



Through these conferences and many other contacts, CATSA strove to ensure that it was at the leading edge of world air transport security, and that the services it provides in Canada continue to be among the best in the world.

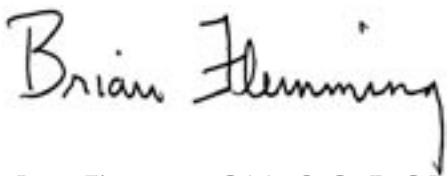
In keeping with its policy of visiting all parts of Canada, CATSA's Board of Directors met on six occasions in Montreal, Kelowna, Ottawa, and Halifax. In December, 2003, CATSA's Board met privately to discuss governance issues and to begin a process of Board evaluation.

To conform to the new and higher standards being required of all federal Crown corporations, CATSA created a new Governance and Nominating Committee in 2004.

In the coming year, CATSA will begin preparations for the statutory review that must be conducted in its fifth year of operation, namely, in 2006-2007.

On behalf of the Board of Directors, I thank CATSA's management team for its dedication and hard work in the past year. I also wish to thank our service providers across Canada and all their employees for the high level of professionalism they have attained. The Board is proud of the entire CATSA team.

Finally, I want to pay tribute to CATSA's Board of Directors for its significant public service during 2003-2004. In particular, I want to thank a retiring Board Member, Mme Ghislaine Richard of Montreal, who was CATSA's first vice chair, for her very special contribution to CATSA's success in its first two years of existence.

A handwritten signature in black ink that reads "Brian Flemming". The signature is written in a cursive style with a large initial "B".

Brian Flemming, C.M., Q.C., D.C.L.
Chairman, CATSA

M

ESSAGE FROM THE PRESIDENT & CEO

Our challenge is great but it is also motivating, because the Canadian Air Transport Security Authority was established in order to save lives by making Canadian airports and air transportation safer.

Travellers, employees and carriers count on us to create a secure and foolproof environment so that our airports are safe despite any threats.

Everything we do, from both a technical and human point of view, is aimed solely at protecting the people who use Canadian airports and airways. We also play a central role in a major economic activity; our work contributes to the development and sustainability of the air transportation industry.

On April 1, 2004, CATSA celebrated its second anniversary. Despite its youth, the organization's performance has attained a level of maturity that is equal to carrying out the mandate placed on it by Parliament.

We take this mandate very seriously and as a result we have implemented a range of measures to ensure that it is carried out to the fullest extent, without making any compromises. We are also part of a larger public security effort that mobilizes Canada's police forces and intelligence services in a context of international cooperation never before seen. CATSA is an integral part of a strategy to prevent, detect and protect, a strategy that responds to the new civilian security challenges the world faces. We are a



protective net which prevents air transportation from being used as either a target or a means for the commission of criminal acts.

During the Second World War, Winston Churchill kept saying that defeat was not an option. In the same vein, we at CATSA believe that we do not have the option to make mistakes. I have told the entire team that we have no margin for error. Zero tolerance, no excuses. We have an obligation to get results at a level few others share.

This obligation is precisely what stimulates us and keeps us alert, vigilant and innovative. As you read this annual report, you will see that in just two years we have acquired, deployed and installed systems to detect explosives at Canada's airports. We have concluded new contracts with suppliers of screening services and we have found new and innovative ways of motivating these suppliers and their staff. The new contracts testify to CATSA's efforts to enhance the inherited model and bring about a new way of doing things.

We have continued to implement our multi-level training and certification program for thousands of screening officers. We have created a new standard uniform for these officers in order to demonstrate consistency at the various airports and enhance pride on the part of these front-line workers. We have inaugurated a new security communications centre which will provide greater uniformity and allow us to act quickly when an incident occurs. We have also made significant changes regarding security in the restricted areas of airports, through a new identity card that incorporates biometric technology as well as a new screening program for airport staff who have access to restricted areas.

To sum up, we are deploying a range of measures within a clear and coherent plan of action. From now on, a single approach will be applied without compromise at every airport, with the same level of rigour and the same degree of determination.

The year 2003 was one of fruitful activity which allowed the organization to leave its mark on airport and air transportation security in Canada. One of our major achievements, without a doubt, was the creation of a common culture within the entire team based on a clear mission and on those values which are vital to carrying out our mandate. The consensus in this regard constitutes a powerful tool for protecting people. We are working together as never before because we are determined that we must do so in order to save lives. We are creating a safer environment so that passengers have an experience which is positive and pleasant but still secure.

To conclude, I would like to personally thank all members of CATSA's staff, the suppliers of screening services and their employees, our partners, including Transport Canada, and our Board of Directors for their ongoing assistance and commitment.

A handwritten signature in black ink, appearing to read 'J. Duchesneau', with a long horizontal flourish extending to the right.

Jacques Duchesneau, C.M.

President and Chief executive Officer



When it comes to air transport security, one size may not fit all, but certainly one goal animates us all: to make air travel safe and to keep our citizens secure.

1 INTRODUCTION

Although Canada has always had one of the safest and most secure air transport systems in the world, the commitment to continuous improvement is ongoing. It is essential that lives be protected, and that international borders remain open to the flow of people and goods.

With the creation of CATSA, the Government of Canada significantly enhanced the protection of Canadians by securing key elements of the air transport security system.

Each year millions of Canadians arrive at airports, check their baggage, and head to security before boarding aircraft. Across the country, they are greeted by individuals wearing the CATSA uniform – the screening officers. Under the supervision of their respective employers, the screening providers, these professionals are committed to courteous, efficient and effective service. CATSA provides state-of-the-art equipment to screen individuals and their belongings to ensure no prohibited and threat items are taken onto an aircraft.

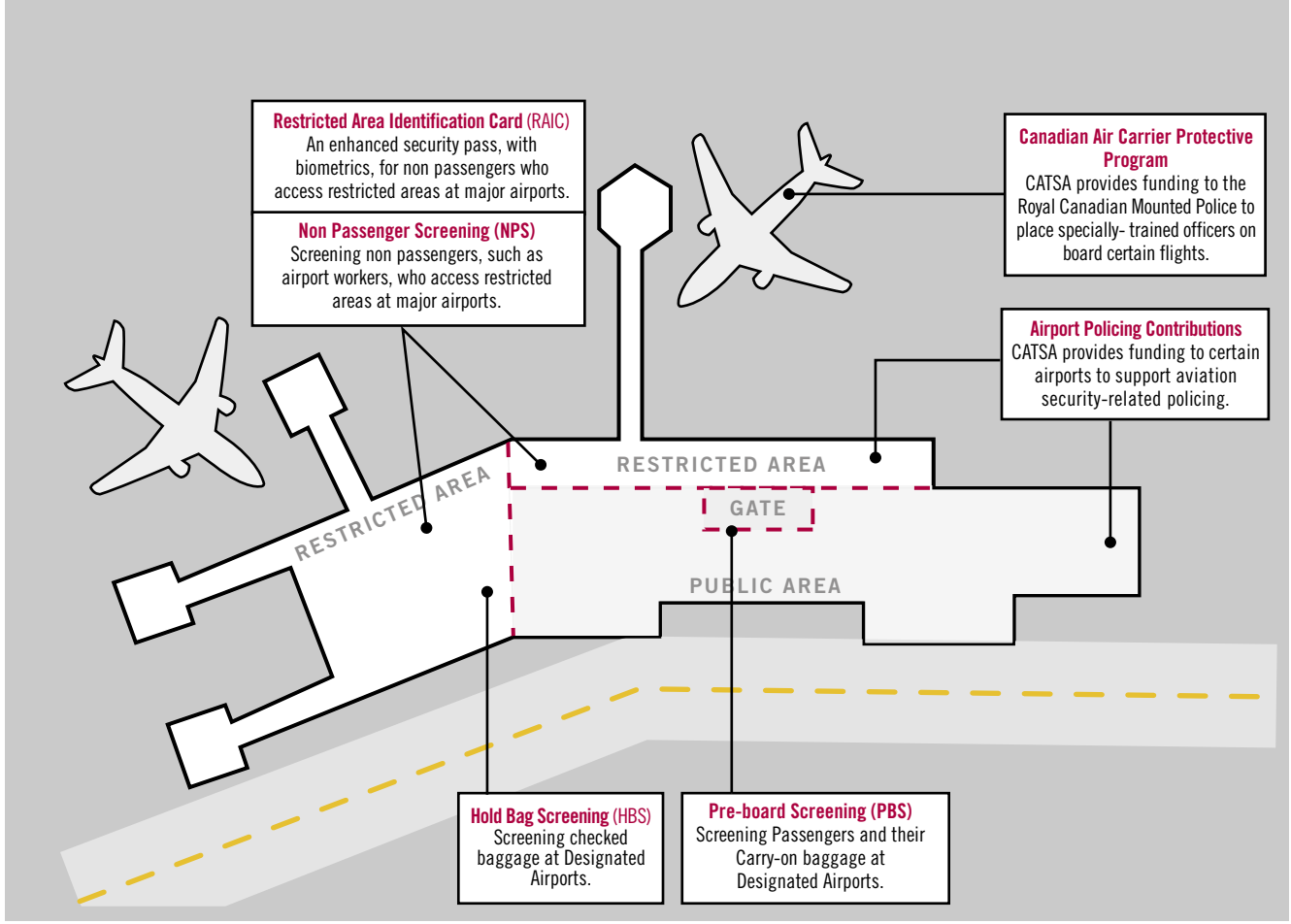
Out of view of passengers, screening officers also carry out other related responsibilities.

Non-passengers who have access to airport restricted areas are also screened by these highly trained professionals.

CATSA also contributes to an increased police presence at airports and on board aircraft.

Working together with its partners, CATSA is implementing one of the most secure screening systems in the world. At every stage, from development through implementation and ongoing innovation, CATSA works with Transport Canada, screening providers, airports, airlines, police services and numerous other stakeholders. Security is a shared responsibility in Canada.

CATSA developed the following Mission and Vision statements to help inspire and guide the entire CATSA team in the execution of its role.



CATSA: A Partner Integrated with Airport and Airline Security Requirements

Mission

The Canadian Air Transport Security Authority's mission is to protect the public by securing critical areas of the air transportation system as assigned by the government.

Vision

The Canadian Air Transport Security Authority is to be a world leader in air transportation security through commitment to its mission and through operational and corporate excellence.

The Vision will be achieved through:

- Contributing to a highly secure air transport system
- Being cost effective
- Striving for excellence
- Networking with partners
- Establishing clear accountabilities
- Being innovative
- Fostering ethics and values
- Continuously improving through the implementation of best practices

What Does CATSA Do?

CATSA's mandate is divided into six programs.

1 *Screening passengers and their carry-on baggage*

In the screening process passengers and their carry-on baggage are inspected to ensure that prohibited items, such as knives, firearms, incendiary devices, explosives, or any other threat items are not carried onto the aircraft. CATSA is responsible for screening at the 89 airports listed in Appendix A.

2 *Screening checked baggage*

Through the use of high-technology explosives detection systems equipment, CATSA is responsible for screening checked baggage at the airports listed in Appendix A. This responsibility includes purchasing, installing, testing, operating and maintaining the equipment.

3 *Screening non-passengers accessing restricted areas at airports*

A non-passenger is any individual whose workplace is an airport, who visits an airport to provide a service or deliver goods, or who passes through an airport and requires access to the designated restricted areas of the airport. This includes flight crews, airline customer service personnel, caterers, maintenance personnel, and baggage handlers. To further enhance airport security CATSA began screening non-passengers for prohibited items at major airports on February 16, 2004.



The Need for Vigilance

"It is not raining. Madrid is crying." That was the reaction of Jorge Mendez, a 20 year old student witness to the millions of Spaniards who poured into the streets following the series of train bombings in Madrid on March 11, 2004.

It was two and a half years, to the day, after the tragic events of September 11, 2001. What the attacks in the United States and Spain sadly demonstrate is the importance of continued vigilance in transportation security. Terrorists may strike any place, at any time. The human, social and economic cost of complacency in security is not acceptable.

Immediately following the Madrid bombings the European Union called on member states to rapidly implement legislation on maritime and aviation security.



Training Qualified Screening Officers

To ensure that screening is carried out by qualified individual screeners, CATSA implemented its innovative National Training and Certification Program.

6 *Overseeing airport policing funding agreements*

Certain airports are responsible, under Transport Canada regulations, for contracting with police to provide aviation-related policing at airports. In order to offset a portion of these costs, CATSA provides funding assistance to these airports.

4 *Enhancing the airport pass system for restricted areas*

All non-passengers who need access to restricted areas at the airport are required to carry a Restricted Area Identification Card (RAIC). CATSA is working with Transport Canada and major airports to enhance this system. Biometrics and centralized databanks will allow for the positive identification of the cardholder, and allow CATSA to track, in real time, the issuance, verification and cancellation of passes.

5 *Overseeing the Canadian Air Carrier Protective Program*

CATSA provides funding to the Royal Canadian Mounted Police (RCMP) to place specially-trained police officers on board selected Canadian commercial aircraft. This program is known as the Canadian Air Carrier Protective Program (CACPP).



The Canadian Air Transport Security Authority is to be a world leader in air transportation security through commitment to its mission and through operational and corporate excellence.



We all recognize that technology alone is not enough. It takes highly trained screening officers to operate equipment and to make the final determination.

2 ACTIVITIES AND ACCOMPLISHMENTS

Our Mandated Activities

Pre-Board Screening

CATSA made the decision to deliver pre-board screening services through a public-private partnership. The partnership, which involves contracting with service providers, represents another important step in the evolution of security screening in Canada and the delivery of services to air travellers. We have raised the bar on how we do business by including stricter requirements and guidelines for performance and customer service.

Pre-board screening is where passengers come into contact with a screening officer. It is the most visible aspect of CATSA's operations.

As with all of CATSA's mandated screening responsibilities, Transport Canada sets the regulatory framework, CATSA establishes the screening policies and procedures, and screening providers deliver the service on our behalf.

In 2003/04, much of CATSA's effort was directed to improving screening operations.

Travellers may notice that a common look and feel, including the new CATSA logo and uniform worn by screening officers, now characterizes screening points across Canada. These changes support the delivery of consistent service to travellers, and contribute to a greater sense of professionalism among screening officers.

CATSA deployed new state-of-the-art equipment on schedule to all pre-board screening points by December 31, 2003, thereby providing greater resources to screening officers. Screening officers now have better X-Ray technology, resulting in clearer images and easier detection of prohibited objects. Screening officers also now have access to explosives detection equipment, which is sensitive enough to find the equivalent of one tablespoon worth of explosives in an Olympic-sized swimming pool.



Excellence in Customer Service

Screening officer Dan Mitchell, from the Edmonton International Airport, was honoured in the “You’re Welcome Edmonton Awards” in recognition of the outstanding customer service he provides air travellers. The importance of customer service is emphasized in CATSA’s National Training and Certification Program. Both CATSA and Mr. Mitchell’s employer, Aeroguard Inc., are proud of the example he sets for his fellow screening officers.

CATSA enhanced standard operating procedures as part of our commitment to continuously improving the way screening officers conduct screening. CATSA updated and consolidated these procedures into one reference guide, so that screening officers and screening providers have easy access to the information required in order to understand and carry out responsibilities.

Under the CATSA Act, CATSA has three options for delivering screening. It can hire its own employees, reach an agreement with airports to provide this service, or contract with private sector third party screening providers.

Prior to the creation of CATSA, airlines were responsible for screening, and they contracted

with screening providers. Between December 31, 2002 and March 31, 2004 CATSA contracted with screening providers using a modified version of those airline contracts.

Over the course of last year CATSA reviewed its service delivery options and elected to enhance the existing model.

Significantly revised contractual terms were developed, and an open competition was held.

CATSA awarded these contracts to the following companies:

- Toronto (Pearson, Toronto City and Buttonville airports)
 - GARDA OF CANADA
- Ontario (other than the three Toronto airports)
 - AEROGUARD EASTERN LTD.
- Prairies (Alberta, Saskatchewan, Manitoba, Yukon and NWT)
 - AEROGUARD INC.
- Quebec
 - SÉCURITÉ KOLOSSAL INC.
- Atlantic (New Brunswick, Nova Scotia, NFLD/Labrador)
 - SHANNAHAN’S INVESTIGATION AND SECURITY LIMITED.

- Pacific Region - as a result of on-going customer service challenges, CATSA elected to continue using GROUP 4 FALCK (CANADA) LTD. and AEROGUARD COMPANY LTD, to deliver screening services in the Pacific Region.

CATSA has 10 priorities under the new contracts:

- 1 **Security is Job 1:** Our top priority is the security of Canada's air transport system.
- 2 **Continuous Improvement:** CATSA is continuously working to improve and enhance Canada's air transport security system, and this approach must be maintained by screening providers.
- 3 **Consistency:** There must be consistent screening services across the country.
- 4 **Customer Service:** Screening providers must deliver professional and courteous service.
- 5 **Business Practices:** Screening providers must provide timely and accurate operational data as requested by CATSA to support program delivery, and to contribute to CATSA's Business Intelligence Systems.
- 6 **Bilingualism:** CATSA and screening providers must ensure that all aspects of the *Official Languages Act* are complied with.
- 7 **Scheduling:** Screening providers must allocate resources to achieve acceptable levels of service at peak travel periods without compromising security.
- 8 **Accountability:** Screening providers must be accountable for meeting CATSA's policies and procedures.
- 9 **Professional Management and Training:** Screening providers must effectively manage the scheduling of their employees to ensure they receive training in a timely manner.
- 10 **Bi-annual Meetings and Performance Reports:** Screening providers will receive frequent reports from CATSA that identify whether they meet the thresholds in each performance area.

These ten priorities are reflective of the quality of service embodied by screening officers across Canada as they work together with their employers and CATSA to deliver screening services.

FAIRNESS AND PROCESS AUDITORS

Consistent with the CATSA Act, CATSA adopted contracting policies that promote openness, fairness, transparency, and value for money.

To ensure that the screening provider bid process met that standard, an independent Fairness Auditor oversaw the entire process. In addition, once the process was completed, an Auditor verified that appropriate actions were taken.

WORKING IN PARTNERSHIP

Transport Canada has overall responsibility for aviation security. This includes setting regulatory standards for screening (applicable to all Service Delivery Models) and using its own inspectors to test the screening system. Results are shared with CATSA to facilitate improvements to the system.

Security is Job 1:

Screening officers and their employers are CATSA's most important service providers and are the front line in the fight against air terrorism.

Continuous Improvement:

Romeo Manlangit, a screening officer from the Vancouver International Airport, was the first ever trainee to get a perfect score on one of CATSA's practical exams. "I always picture my family going through the checkpoint", said Mr. Manlangit, "and this mental note instantly motivates me to provide the best screening service to each passenger."

Consistency:

Norma Johnson, point leader at the Smithers Airport in British Columbia noted that "In a small place like Smithers, when people travel all across Canada and see everyone wearing the same uniform, they will know we're not ordinary security guards – we're pre-board screening officers working to ensure the safety of the travelling public." CATSA's uniforms now worn by all screening officers across the country provide consistency in the delivery of air security across Canada.

Customer Service:

When it comes to customer service, Janice Kielly, a screening officer at St. John's Airport, stated, "Since we've had training, the relationship between screening officer and passenger is more courteous, friendly."

Business Practices:

In the past year screening officers have intercepted over 600,000 objects at various Canadian screening points, including knives, spiked bracelets and pepper spray.

Bilingualism:

"When I'm at the checkpoint," said Aline Atherton, a screening officer from Calgary International Airport, "I speak my first words to passengers in French followed by my second sentence in English".

Scheduling:

In Regina, the day following the Grey Cup, there was a 33% increase in traffic. "There was a true demonstration of great team work on that day", recalled Dave Dickie, CATSA's Regional Manager for the Prairies. In addition to balancing the scheduling of resources, "NAV Canada, the Regina International Airport, the screening provider and CATSA worked together and were able to install extra screening equipment and a third pre-board screening checkpoint."



Managing Our Equipment

Airports prepare project designs to incorporate the explosives detection systems equipment. CATSA is responsible for approving project designs and budgets.

CATSA procures equipment and ships it to the airports.

CATSA oversees installation by the airports

CATSA's qualified personnel thoroughly test the system to ensure security standards are met.

CATSA develops Standard Operating Procedures for everyday operations of the equipment and Contingency Plans to respond to emergencies.

CATSA provides awareness training to Transport Canada, airports, airlines and local police.

CATSA trains the screening officers.

CATSA manages the maintenance of the equipment on site.

Accountability:

When asked to describe her role, Carole Cloutier, a screening officer at the Ottawa Macdonald-Cartier International Airport, proudly stated, "We work on making passengers feel safe boarding the plane. Our job is very important. We're the last line of defense and we must work on ensuring that this line is impenetrable at all times."

Professional Management and Training:

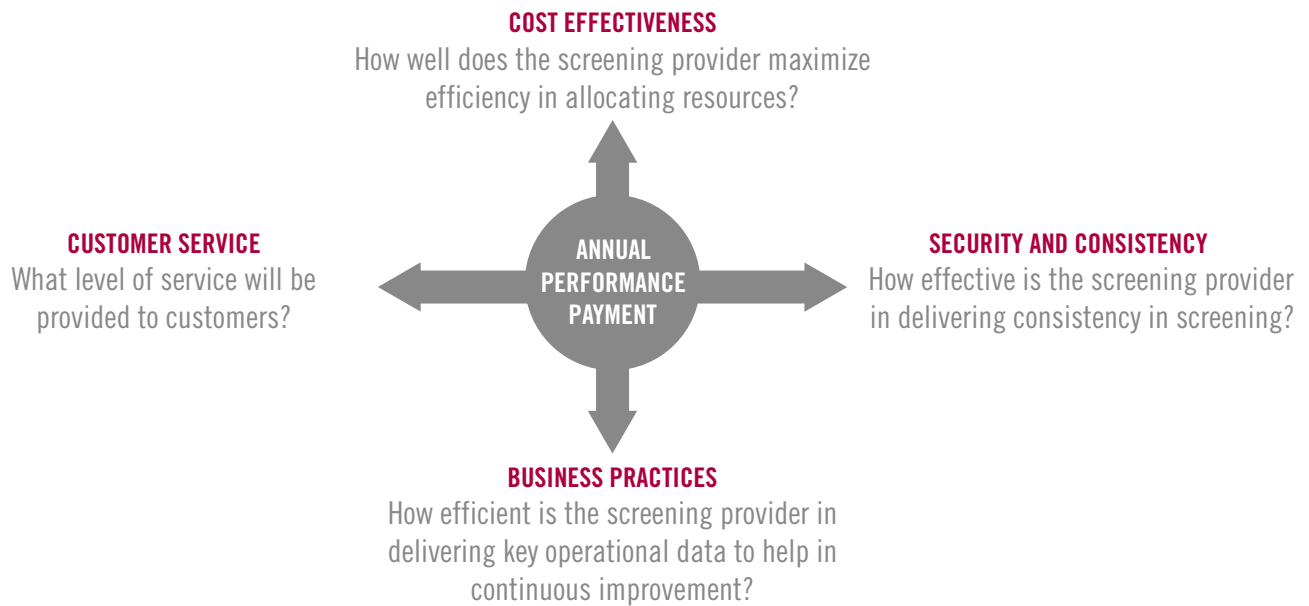
Increased managerial oversight of the screening process will enable screening providers to optimize their resources, better manage their workforces, and arrange training schedules.

Bi-Annual Meetings and Performance Results:

CATSA will use performance data to assess whether screening providers meet or exceed targets making them eligible for performance pay.

Greater Supervision of and Communication with Screening Providers

The new contracts increase CATSA's supervision of and communication with screening providers. CATSA implemented a performance payment program as part of its oversight and contract management initiatives. This program will provide an incentive for screening providers to meet and exceed standard operating procedures and customer service expectations established by CATSA. CATSA will review the performance of screening providers in four areas:



The number of CATSA regional managers was increased to ensure appropriate oversight of all airports, not just the major centres. In addition, CATSA is developing a scheduling model that will enable CATSA to effectively validate schedules supplied by screening providers, and to make recommendations on more efficient allocations of scarce resources.

A Quality Control Plan for screening will be introduced in the coming months. By measuring our performance and adapting to challenges, CATSA will be able to ensure greater screening consistency and effectiveness. These performance measurement tools will complement Transport Canada's regulatory role.

CATSA established a Security Communications Centre at CATSA Headquarters which will be linked to screening points at airports across the country. The new Centre functions as the primary security contact point at CATSA, and allows for

greater oversight of critical security points either by telephone, fax, computer or video surveillance. The Centre enables centralized information flow and rapid responses to security incidents.

In the event of an emergency, the Security Communications Centre can coordinate CATSA's efforts with screening providers, airports, airlines and Transport Canada. CATSA will also be able to work together with other security partners, such as the Department of National Defence and the Royal Canadian Mounted Police. CATSA will seek protocols with other security centres, as appropriate.

From Goose Bay to Iqaluit, from Brandon on through to Sandspit, CATSA has put the necessary mechanisms in place to deliver effective, efficient and secure screening operations to the travelling public.

Screening Checked Baggage (also known as Hold Bag Screening)

Many of the same highly trained screening officers, who greet passengers before they pass through into the restricted areas of an airport, are also screening passengers' checked baggage. These screening officers are called upon to operate many types of sophisticated, state-of-the-art explosives detection systems screening equipment.

Through its membership in the International Civil Aviation Organization, which aims to improve civil aviation and security standards around the world, Canada committed to improve the screening of checked baggage.

To meet this obligation, CATSA developed, and the Minister of Transport approved, a national deployment plan for introducing additional explosives detection systems equipment at airports.

In undertaking this responsibility, CATSA deploys the most advanced and best-suited equipment that meets the needs of all stakeholders, including Transport Canada and airports. Screening equipment can be as large as a minivan, which can present challenges for airports when installing this equipment within their current baggage handling configurations. CATSA is careful to design its system to ensure a consistent level of security across Canada, while permitting upgrades as new technologies become available.



Innovative Approaches at Airports

At all airports, when bags must be opened during the screening process, CATSA's policy is to attempt to reconcile the passenger with the bag before opening it. Bringing the passenger to the bag in the airport restricted areas, however, can be a time-consuming process. With the cooperation of the Vancouver International Airport, CATSA instituted an operational trial for matching passengers and their checked luggage. The operational trial involves taking a portable computer to the passenger waiting area, and providing the passenger with a video link to the screening area. This allows for a quick identification of the bag as well as passenger consent and supervision during inspection.

While it is essential to deploy state-of-the-art equipment, we all recognize that technology alone is not enough. It takes well-trained screening officers to operate this equipment and to make the final determination.

CATSA is proud of the progress that has been made in deploying equipment. This is a series of large scale capital projects, which require long lead times and significant collaboration with airports.

The success of the deployment has relied on cooperation and support from both airports and airlines.

To facilitate the timely implementation of the deployment plan at Canada's airports, CATSA hosted an Airport Technical Symposium in January 2004. Drawing on the collective experience of CATSA and the airports, best practices were shared on the technical aspects of implementation, such as commissioning, testing, and certification. CATSA and the airports are working together to meet Canada's security commitments.

Non-Passenger Screening

In 2003/04 CATSA moved from concept to implementation of the Non-Passenger Screening Program.

A non-passenger is any individual whose workplace is an airport, who visits an airport to provide a service or deliver goods, or who passes through an airport, and requires access to the designated restricted area of the airport. Non-passengers include refuelers, caterers, aircraft groomers, maintenance personnel, airport baggage handlers, concession staff, airline customer service personnel, and flight crews.

Over the past year, CATSA and Transport Canada worked in close cooperation and consultation with stakeholders in the development of this program. The first phase of the program started at Toronto's

PLANNING AHEAD

Hundreds, and in some cases, thousands of personnel are accessing airport restricted areas at any given time. From airline personnel, to airport terminal and grounds crews, to airplane catering services and retail vendors, all are operating on tight schedules designed to ensure the efficient transportation of passengers. For the air industry to remain viable, personnel must be able to function with as minimal disruption as possible. This need must be balanced with critical security objectives. By staging operational trials before the program officially rolled out, CATSA was able to collect data that helped develop an effective program. By working closely with these stakeholders, the right balance between security and economic efficiency will be possible.

Pearson International Airport in February 2004. The program is expected to be fully operational at major airports in 2004/05.

For maximum flexibility, and in accordance with the regulatory framework established by Transport Canada, screening may be conducted at any restricted area access point along the perimeter of the airport and within the restricted area of the air terminal building.

This new program will help keep Canada at the leading edge of air transport security.

Restricted Area Identification Card

Access control to restricted areas is the responsibility of each airport. Since 1986, people applying for jobs located within restricted areas at Canada's airports have undergone a rigorous program of background checks by Transport Canada to determine whether they pose a threat to aviation security. As a condition of employment, the suitability of each applicant is verified with the Royal Canadian Mounted Police and the Canadian Security Intelligence Service before issuing security clearances for employees who work in restricted areas.

CATSA has been working with airports and Transport Canada to improve the identification card system by including biometrics. Biometrics is technology that uses a person's physical characteristics, such as a fingerprint or iris, to verify the identity of that person.

These cards are an enhancement over the current system because the biometric safeguards will allow for the positive verification of the cardholder.

Operational trials were initiated at four Canadian airports to test the implementation of this new system. These trials represent the world's first large-scale test of individual preferences for fingerprint or iris technology. Once the operational trials are complete, CATSA can assess those technologies which



best meet the needs of Transport Canada, stakeholders and users.

In addition, CATSA will maintain a centralized database, for the issuance, verification, cancellation, and tracking of these cards across the country.

The success of this program stems from the cooperation and commitment of all parties working together. Airports will still issue and retain ownership of the cards and maintain access control over their restricted areas. Transport Canada will continue to provide transportation security clearances.



Canadian Air Carrier Protective Program

Another critical initiative implemented by the Canadian government after the events of September 11, 2001 is the Canadian Air Carrier Protective Program.

This program is designed to reduce the possibility of any unauthorized person assuming control of a Canadian commercial aircraft. CATSA works in partnership with the Royal Canadian Mounted Police to place aircraft protective officers on board aircraft. All aircraft protective officers are full-time RCMP officers who have completed a specialized training program.

The deployment of specially trained RCMP officers on board aircraft, we believe, inspires confidence in the travelling public. Often referred to in other countries as air, or sky marshals, these aircraft protective officers add another layer to air transport security.

CATSA's primary role is to provide funding for this important security program. CATSA works closely with the RCMP to ensure that the

program is well-administered, and that it uses resources appropriately.

This program is an excellent example of various government organizations, including CATSA, the RCMP and Transport Canada, working in partnership with airlines to enhance the security of the travelling public.

Such programs are relatively new in other countries as well. By collaborating with officials from the Department of Foreign Affairs Canada, CATSA, has contributed to international discussions on harmonizing rules and procedures governing aircraft protective officer programs and best practices.

Airport Policing Contribution Program

The Airport Policing Contribution Program is another example of a successful partnership in progress. Under this program, CATSA provides funding to eligible airport authorities for aviation security-related policing functions at those airports. In turn, the airport authorities, in accordance with Transport Canada regulations, contract with police services to provide for an enhanced police presence at airports.

After the program's first year in operation, and following consultations with the eligible airports, the funding agreements were improved to streamline the claims process, enhance CATSA's audit function and facilitate the collection of evaluation information to enable CATSA to work with the airports to assess the effectiveness of the program.

Strengthening and Supporting our Mandate

Raising the Bar: Training and Certification

Screening officers are on the front lines of security at airports. CATSA believes that comprehensive training is the key to strengthening the effectiveness of this security layer. CATSA significantly increased the number of hours of training provided, both in the classroom and on-the-job.

CATSA provides screening officers with a series of progressive learning opportunities rather than a single course. Screening officers pass through a series of increasingly difficult training levels, and after each training segment an individual receives on-the-job training, then certification to each level. The certification process is critical and represents CATSA's seal of approval of the individual's competencies.

CATSA is building upon this program by incorporating the most up-to-date technological solutions available at both our permanent training centres, and through our distance learning program.

CATSA established permanent training centres across Canada. They include classrooms where trainees receive computer-based theoretical classes and facilities where they undergo hands-on training with some of the same equipment used at the screening points.

Using a secure on-line network, screening officers are provided with consistent instruction across the



Treating Everyone with Respect

CATSA is fully committed to ensuring that all persons with disabilities are treated equally, with respect and with dignity when accessing screening services in Canada. In order to provide a positive and welcoming environment, it is imperative that screening officers learn and develop the practical skills that allow them to accomplish their work while at the same time understanding the realities and challenges that people with disabilities face. With this in mind, CATSA is developing an online training program for 2004/05 that will help screening officers to identify the issues relating to people with disabilities.

country. Training instructors are based at broadcast centres, and screening officers sign on to their lessons. This system allows instructors to provide identical training to screening officers wherever they are based. By bringing screening officers together from across the country through technology, they have an opportunity to share best practices and experiences. This approach leads to a professional, consistently trained and motivated workforce dedicated to screening the travelling public.

At every stage of this process, information is gathered and analyzed to improve the training program, cost effectiveness and air transport security.



At the Screening Point

At most major airports CATSA displays a pre-board screening video. It demonstrates the process a passenger will experience when proceeding through a screening point. The objective is to ensure that passengers are well informed and to contribute to reduced “hassle” factors and passenger wait times. If we can better inform passengers, we’ll save time and make screening more efficient.

Communicating with the Travelling Public

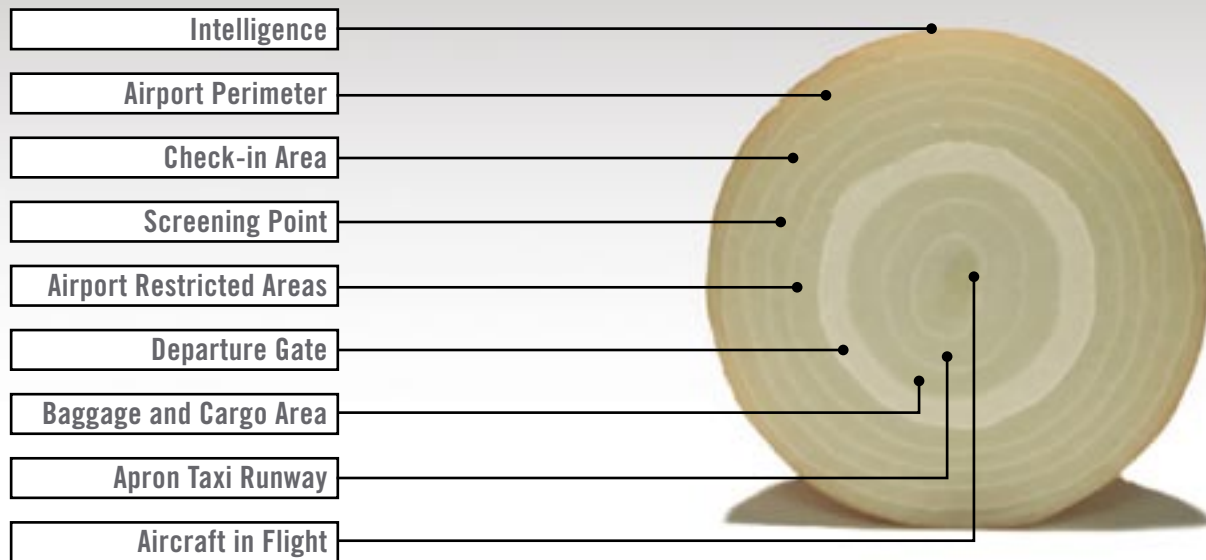
CATSA’s communications strategy centres on informing Canadians of the federal government’s commitment to enhancing air transport security, as well as providing passengers with practical information about the benefits of these enhancements.

Communications initiatives focused on the production and dissemination of communication and awareness products to the public. These initiatives included the production of a how-to video for passenger accessing pre-board screening points, two major newspaper and magazine campaigns, public events and announcements to increase awareness, and joint ventures with stakeholders and other organizations.

To help passengers, airlines, airports and travel agents, CATSA has published a pamphlet outlining its responsibilities and mandate. Included in the pamphlet is valuable advice for passengers to help them prepare for their trip, offering packing advice and helpful hints to make the pre-board screening process as convenient as possible. The pamphlet is available on our website, by calling CATSA directly or 1-800 O Canada. To date, approximately 550,000 pamphlets have been distributed across the country to major stakeholders.

CATSA’s website has been re-designed with a focus on getting information to passengers, either directly or through third parties such as airports and travel agents. Helpful tips as well as lists of commonly intercepted prohibited items are readily available for leisure and business travellers. Web traffic has increased over 100 per cent in the last nine months.

CATSA provides tips for travellers during peak travel periods as a means of increasing awareness of security enhancements and our role in air transport security.



Multi-layered Security

The Security Network

Chapter 3 of the March 2004 Report of the Auditor General of Canada notes that interoperability and a lack of information sharing are concerns in the security field. CATSA has taken a proactive approach to overcome “stovepipes” in the security field in order to share information and experiences both domestically and internationally.

CATSA’s most important relationship is with its regulator, Transport Canada. There is daily contact between the two organizations, as well as formal monthly meetings to discuss program, policy and regulatory issues.

CATSA participates with aviation stakeholders, including the Air Transport Association of Canada’s Security Committee, Canadian Airports Council’s Security Committee, Airports Council International

(North America), and the International Air Transport Association’s Simplifying Passenger Travel Interest Group.

CATSA is continually reaching out for new partnerships, such as with the Canadian Transportation Agency to ensure that screening officers receive training in the assistance of persons with disabilities.

CATSA takes a global approach to security and develops relationships with international stakeholders and counterparts, and opens channels for the sharing of information, strategies, and best practices.

Interpol is an organization that aims to provide a unique range of essential services for the



Living with Risk Symposium

law enforcement community to optimise the international effort to combat crime. In addressing Interpol's 72nd session in October 2003, Jacques Duchesneau, CATSA's President and Chief Executive Officer, noted that while terrorist organizations are forming strategic alliances, police departments need to share information with police departments in other countries as effectively as possible. To dismantle air transportation terrorism, there must be effective forms of multilateral cooperation.

In January 2004, CATSA's Board of Directors hosted the very successful "Living with Risk" Symposium that brought together leading thinkers from Canada, the United States and Europe, with senior Canadian federal government officials. In a sharing of ideas, more future than operations oriented, participants had an in-depth discussion about the security landscape, discussing what may be on the horizon, the nature and drivers of future threats to our security, and the evolution of responses from governments, international organizations, and other bodies. The discussions afforded the

opportunity for CATSA to forge connections with like-minded agencies in Canada and abroad.

From February 25-27, 2004, CATSA's Senior Management team took the lead in establishing and hosting the first international meeting of senior executives responsible for air transport security from the world's leading air transport security agencies. The meeting focused on operational issues of interest to CATSA and our counterpart organizations in other countries. The meeting was a resounding success. A subcommittee including CATSA was struck to organize the next meeting to ensure that the momentum and partnerships forged at this meeting would continue.

Looking to the Future

As CATSA enters its third year of operation, it is in a better position to refine long-term strategic goals that are consistent with the mission and vision.

CATSA recognizes that while much has been accomplished over the past two years, there is always room for improvement. Consistent with CATSA's emphasis on continuous improvement, CATSA has begun to refine current security programs, and investigate the development of future programs that ensure security, sustainability, and adherence to the highest principles of public program management.

Transport Canada reviews and adjusts the aviation security regulatory framework in consultation with stakeholders, based on an evaluation of the impacts on existing and proposed security measures. CATSA provides valuable input into this process. CATSA is working with Transport Canada to influence the nature of regulations, moving from a specific and prescriptive approach, to one in which CATSA would implement a comprehensive security system and Transport Canada would audit the system. This concept is referred to as a Security Management System.

This would allow CATSA to have greater flexibility in the way it delivers its services, with Transport Canada continuing to ensure compliance with aviation security regulations. It is also consistent with "Safety Management Systems" that have been developed in other transportation sectors.



CATSA Chair, Brian Flemming, speaks in Australia

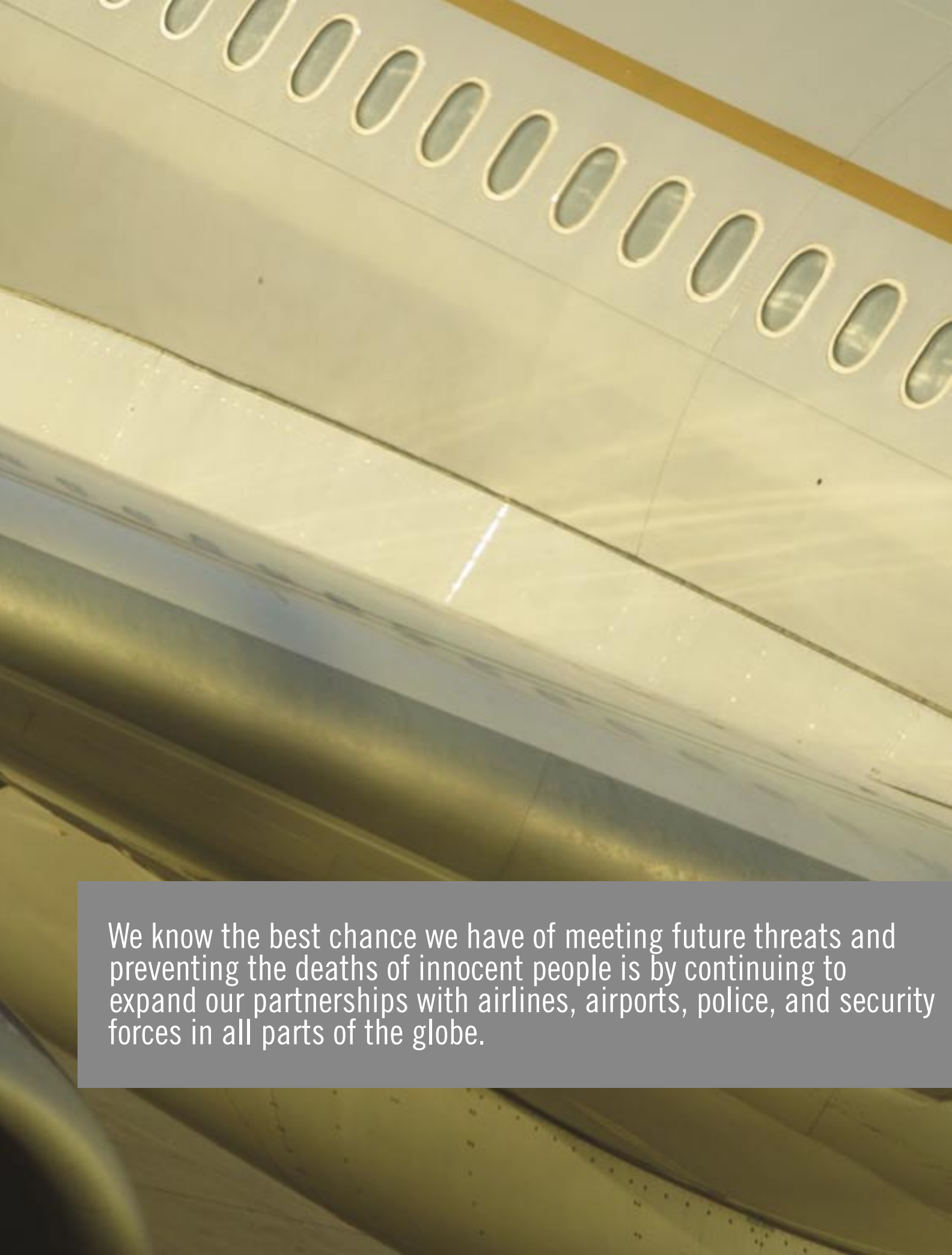
"Canada has one of the best air transport security systems in the world but it will only stay that way if we continue to improve and expand our international partnerships with others around the world."

— B. Flemming, Chairman of CATSA
Maritime and Air Security in Canada Public Lecture,
Sydney, Australia, February 4, 2004

To further inform the delivery of CATSA's screening operations, security research was conducted on alternative screening practices as well as on international best practices. CATSA also began work to benchmark its operations against its international partners. Consideration was given to issues such as new staffing models, screening configurations and methods for screening non-passengers. Recognizing, however, that regulatory or operational "best practices" of other jurisdictions may not be appropriate in Canada, CATSA tailors these best practices to the Canadian context.

Accountability	Rested with individual airlines for their own passengers.	CATSA accountable to Minister of Transport.
Objective	Objective of airlines was to meet security standards at least cost and with least impact on passenger flow.	CATSA's highest priority is security. Security standards are continually rising.
Consistency of Services	Different screening contracts with different screening providers.	CATSA introduced standard operating procedures for all 89 Designated Airports.
Training of Screeners	Single course with limited hours of on-the-job training.	Screening personnel required to undergo a series of progressive training levels which include expanded on-the-job training.
Conditions of employment for Screeners	Generally low paying jobs with high turnover.	CATSA introduced standards to meet quality objectives, including improved training, increased rates of pay and potential for career development.
Screening of checked bags	Limited screening in place.	Significant expansion of screening capacity.
Security measures for airport restricted areas	Non-passengers not screened, but must possess restricted area pass.	Screening of non-passengers; Enhanced restricted area identification card (e.g., biometrics and central database).
Incident Reporting	Security incidents and surrendered items managed locally.	CATSA has introduced a security communications centre to capture and analyze all incidents on a national basis.

Then and Now: A Pre- and Post-CATSA Comparison

A close-up, low-angle shot of the side of a white commercial airplane. The image shows a row of oval passenger windows with white frames, set against a light-colored fuselage. A prominent yellow stripe runs horizontally across the upper portion of the frame. The lighting is bright, creating some reflections on the metallic surface.

We know the best chance we have of meeting future threats and preventing the deaths of innocent people is by continuing to expand our partnerships with airlines, airports, police, and security forces in all parts of the globe.



In managing our business affairs we must learn to accept the necessity of managing the risk.

3 PERFORMANCE OVERVIEW

Performance Against Objectives

For each of CATSA's program objectives, the following table summarizes the results in 2003/04, the plans for 2004/05 and the performance measures for assessing performance in the coming year.

These measures represent the initial stage in setting operational objectives and targets for the coming years. CATSA's Management Team will be working with its Board of Directors to continuously improve upon these performance measures and to expand their scope where required. CATSA will also continue to work with Transport Canada and central agencies to develop its objectives and performance measurements in line with existing policies and procedures.

The process of measuring the strengths and weaknesses of our programs is continuous.

Pre-Board Screening

Results in 2003/04	Plans for 2004/05	Performance Measures for 2004/05
<p>Enhanced Standard Operating Procedures.</p> <p>New explosives detection equipment shipped, on schedule, to all screening points by December 2003.</p>	<p>Complete transition of operations following the awarding of new screening provider contracts.</p> <p>Further enhancements to screening effectiveness.</p> <p>An operational trial, at screening points, that would allow passengers to mail prohibited items.</p> <p>Establish scheduling committee with major airports to improve the management of peak travel periods.</p> <p>Operational trials to test the layout of screening points with a goal to improving passenger throughput.</p>	<p>Security and Consistency:</p> <ul style="list-style-type: none"> Audit findings against Transport Canada's security measures, and CATSA's policies and procedures. <p>Effectiveness (over set periods of time):</p> <ul style="list-style-type: none"> Hourly throughput Cost per passenger <p>Customer Service (over set periods of time):</p> <ul style="list-style-type: none"> Wait times at peak periods Number of complaints, per 1000 passengers, on official languages, discrimination, access to services for disabled
		<p>To ensure passengers and their carry-on baggage are effectively screened.</p>

Screening Checked Baggage

Results in 2003/04	Plans for 2004/05	Performance Measures for 2004/05
<p>Equipment deployed at airports across the country.</p> <p>Workshops on equipment installation have been completed at major airports.</p>	<p>CATSA's efforts will shift to maintaining the equipment.</p> <p>Improve guidelines and procedures for equipment test acceptance.</p>	<p>Security and Consistency:</p> <ul style="list-style-type: none"> Audit findings against Transport Canada's regulations and CATSA's policies. <p>Effectiveness (over set periods of time):</p> <ul style="list-style-type: none"> Screening cost per bag Testing on schedule <p>Customer Service (over set periods of time):</p> <ul style="list-style-type: none"> Airport reimbursement payments on schedule
<p>To ensure checked baggage is effectively screened.</p>		

Non-Passenger Screening

Results in 2003/04	Plans for 2004/05	Performance Measures for 2004/05
<p>Non-passenger screening operational trials used to refine Standard Operating Procedures.</p> <p>Purchased non-passenger screening-related screening equipment.</p> <p>Implemented screening at major Canadian airports.</p> <p>Launch of awareness campaign to inform non-passengers of proper procedures for entering restricted areas.</p>	<p>Program to be implemented at all major airports by December 2004.</p> <p>Expansion of program to include vehicles.</p> <p>Establish incident response procedures.</p>	<p>Security and Consistency:</p> <ul style="list-style-type: none"> Percentage of non-passengers screened <p>Effectiveness (over set periods of time):</p> <ul style="list-style-type: none"> Cost per non-passenger Wait time at peak periods. <p>Customer Service (over set periods of time):</p> <ul style="list-style-type: none"> - Number of complaints, per 1000 non-passengers
<p>To ensure non-passenger employees at airport restricted areas are effectively screened.</p>		

Restricted Area Identification Card

Results in 2003/04	Plans for 2004/05	Performance Measures for 2004/05
<p>CATSA acquired new technology and equipment in cooperation with airports.</p>	<p>Complete operational trials for the new RAIC at four airports.</p> <p>Begin national deployment of RAICs at major airports once regulations are in place.</p> <p>All RAICs to be distributed by December 2004 (pending regulatory approval).</p> <p>World's first large sample side-by-side comparison of user preference for iris and fingerprint technologies.</p>	<p>Security and Consistency:</p> <ul style="list-style-type: none"> Percentage of non-passengers with Restricted Area Identification Cards by December 2004
<p>To introduce a secure Canada-wide Restricted Area Identification Card system for non-passengers accessing restricted areas at airports.</p>		

Canadian Air Carrier Protective Program

Results in 2003/04	Plans for 2004/05	Performance Measures for 2004/05
<p>Worked with the RCMP in conducting quarterly assessments of program development in 2003/04, and made adjustments accordingly.</p>	<p>Continue with quarterly assessments of program.</p> <p>Continue working with the RCMP to cover all flights to Reagan National Airport (DCA).</p>	<p>CATSA-driven performance measures are limited, as the RCMP is responsible for all operational elements of the program.</p> <p>As the Program Manager, CATSA will examine:</p> <ul style="list-style-type: none"> • Current operating level as a percentage of program capacity • Administrative versus operational costs • Turnover rate
<p>To assist the RCMP in the placing of Royal Canadian Mounted Police Aircraft Protective Officers (APOs) upon designated flights and other flights to prevent non-authorized personnel from taking control of the aircraft.</p>		

Airport Policing Contribution Agreements

Results in 2003/04	Plans for 2004/05	Performance Measures for 2004/05
<p>Contribution Agreements were amended to streamline the claims process for airports, and enhance financial audit powers for CATSA.</p>	<p>Review airport funding formula.</p>	<p>Performance measures for this Contribution Program are not necessary, as Transport Canada audits airports for regulatory compliance.</p> <p>CATSA will conduct a financial audit to ensure funding is applied in accordance with the agreements.</p>
<p>To provide financial contributions to selected airports to subsidize a portion of the costs of aviation-related airport policing.</p>		



CATSA is continuously working to improve upon all performance measures and to expand their scope where required.





Canadians want and expect their federal institutions to be accountable. In order to be accountable, we must ensure the right frameworks are not only put in place, but are put into practice.

4 ACCOUNTABILITY

Security is our primary concern. As a Crown corporation, however, CATSA is responsible for ensuring that our business processes, financial systems and overall management and accountability frameworks are consistent with statutory and government policy requirements.

The *Financial Administration Act* requires CATSA to ensure its assets are safeguarded and controlled. While the government is currently in the process of introducing new measures to strengthen oversight, management accountability and integrity across the public sector, CATSA, as a new organization, began implementing similar measures early in its development.

To meet the challenge of achieving rigorous oversight and sound management practices, CATSA has had the pressing obligation to provide employees with computer equipment and to invest in operational and financial management systems. These systems which include the Business

Intelligence System, the Operations Information Management System, the Learning Management System and Financial and Human Resource Management systems are required to enable CATSA to capture relevant operational data, measure and analyze productivity, implement best practices, control costs, manage and report on results, and to address CATSA's financial planning, accounting and reporting needs.

Responsible Management Practices

Consistent with the Government of Canada's Management Accountability Framework, as well as the aims of the Public Security and Anti-Terrorism Expenditure Management Review, CATSA has been working towards the full implementation of management practices in the following categories:

Integrated Performance Information:

Linking financial information, performance and results.

TRANSPARENCY

Canadians must be able to trust that CATSA is spending tax dollars wisely. With this goal in mind, CATSA began posting hospitality and travel expenses on its internet site in March 2004.

This commitment by CATSA was made in advance of the December 12, 2003, release of the *Prime Minister's Guide for Ministers and Ministers of State and Guidelines for Ministers' Offices*, which provides guidance to institutions to ensure that expense information is collected and presented consistently. CATSA is complying with these guidelines even though it is not required to do so.

Independent Verification and Validation (IV&V):

CATSA's IV&V program provided independent assessments to ensure explosives detection equipment is deployed efficiently and consistently with established CATSA guidelines. The IV&V is also used to verify that adequate controls are in place for the proper accounting and reimbursement of costs.

Cross Canada Assessment: Independent reviews of all aspects of screening operations at major airports across Canada were conducted in 2003/04. The assessment concentrated on opportunities for improvement and best practices, and helped identify those areas that required immediate corrective action.

Internal Audit: As part of CATSA's commitment to effective governance and accountability CATSA recently staffed the Internal Audit function. Internal Audit will provide independent assessment and assurance to the Board as well as the President and Chief Executive Officer on the design and operation of management practices and processes, control systems and information.

Integrated Risk Management: Identifying the organization's highest risks, determining the organization's role in addressing those risks and understanding the capacity for managing those risks.

Integrated Risk Management Team: CATSA established a risk team to guide integrated risk management in the organization by identifying, evaluating, and acting on risks facing the organization.

Rigorous Stewardship and Control: Ensuring a comprehensive system of delegations and controls for assets as well as funds.

Financial Management Accountability Framework: CATSA defined the responsibilities of corporate and operational groups with respect to financial management. Having created an inventory of financial and accounting activities, CATSA has established a list of priority policies and procedures for development in order to meet financial control and reporting requirements.

Contracting Policy: CATSA implemented a Contracting Policy for the procurement of goods and services. The policy sets out rules and procedures to ensure that the procurement of goods and services is conducted in a manner that promotes transparency, openness, fairness and value for money in purchasing. A contract review committee was established to provide guidance and direction on contracting matters and to ensure proper accountability.

Travel Review and Policy: CATSA recently reviewed its travel costs, resulting in a report with recommendations. Following the work of the review, a travel policy has been implemented.

Information Technology Steering Committee: This management team provides financial and technical oversight for information technology projects.

Shared Values and Ethics: Aligning the organization's values and ethics with those of the Public Service.

Code of Ethics and Conduct: CATSA adopted an Ethics and Conduct Code that links to CATSA's Mission, Vision and the CATSA Act. Five measures will provide employees with the rules of conduct which must be followed with regard to conflict of interest, post-employment, harassment, Internet use and disclosure of wrongdoing.



Conflict of Interest Code: A conflict of Interest Code for the Board of Directors has been established.

Reporting on Performance

CATSA understands the importance of measuring results and has been developing a three part strategy for reporting on its performance.

The two main ways of measuring results in any organization are by means of periodic program evaluation studies and ongoing performance measurement systems. CATSA is committed to both.

Performance measurement systems are mostly concerned with tracking program activities and comparing its results against meaningful standards or norms. This information will be reported through CATSA's Business Intelligence System.

Program evaluations on the other hand, provide assessments on the extent to which the results achieved can be attributed to the program.

In 2004/05, CATSA will conduct “formative” evaluations on its screening programs, CATSA’s largest operating and capital expenses, to verify the programs’ effectiveness. Starting in 2005/06, “summative” evaluations will be undertaken for all CATSA’s programs to determine if they are delivering on their objectives.

Audit and Oversight

In response to the September 11, 2001, terrorist attacks on the United States, the government established the *ad hoc* Cabinet Committee on Public Security and Anti-Terrorism (PSAT). Funding of \$7.7 billion over the next five years was allocated in the budget that followed for PSAT initiatives, including \$1.942 billion for CATSA’s first five years of operation. In 2003/04, the Office of the Auditor General of Canada (OAG) commenced an examination of those PSAT initiatives: the National Security Enhancement Initiative Audit.

Although CATSA, as a Crown corporation, is not normally subject to performance audits by the OAG, it volunteered to participate fully in Phase II of the National Security Enhancement Initiative Audit. By participating, CATSA committed to assisting Parliament and the public in obtaining a thorough understanding of the Government of Canada’s air transport security system.

In addition, CATSA’s audited financial statements are made public each year through its Annual Report.

BUSINESS INTELLIGENCE SYSTEMS

CATSA recognizes the critical importance of collecting and analyzing data to measure performance. A Business Intelligence System (BIS) was developed to enable strategic decision-making by integrating operational and administrative data into reports with performance indicators for each of CATSA’s business lines. The BIS shares data “enterprise-wide”, enabling managers to tune their business strategies and to streamline operations.

The BIS will allow CATSA to deliver self-service data, reports and analysis consistently, and to identify priorities for operational review through the use of performance thresholds and targets.

The BIS will rely on data captured by several source systems. Most notably the Operations Information Management System, which is made up of discrete modules for capturing and reporting data on specific operational activities at airport screening checkpoints, is a key source of data used by the BIS for reporting and analysis purposes. Others include CATSA’s financial system, its training management system, its human resources system, and screening operations and equipment systems.

Corporate Reporting

Each year, a Crown corporation submits its Corporate Plan, and Capital and Operating Budgets to their responsible Minister, who in turn, submits these documents for Cabinet approval. In 2003/04 CATSA submitted its Corporate Plan to the Minister of Transport within the statutory time frame as required by the *Financial Administration Act*. The Corporate Plan is often referred to in government as the

centrepiece of the accountability regime adopted by Parliament for Crown corporations. It is the vehicle by which Crown corporations keep the government informed of activities, strategic issues, plans, and obtain approval of its annual budgets.

CATSA's 2003 Annual Report, was also submitted to the Minister within the statutory time frame.



Access to Information and Privacy Act Requests

Under the *CATSA Act*, CATSA, airport operators and screening contractors must keep confidential any information the publication of which, in the opinion of the Minister, would be detrimental to air transport security or public security, including financial and other data that might reveal such information. CATSA, however is subject to both the *Access to Information Act* and the *Privacy Act*. As such, CATSA must adhere to the requirements of all three pieces of legislation.

Last fiscal year, CATSA received 34 requests under the *Access to Information Act*, 14 of which were abandoned, and two requests under the *Privacy Act*.

Official Languages

CATSA has made great strides on Official Languages in only its second year of operations. Through its screening contractors, CATSA must ensure that the service they provide to the public is delivered in the passengers' language of choice. In order to accomplish this CATSA has worked diligently with the Office of the Commissioner of Official Languages to revise its training program for screening officers as well as their Standard Operating Procedures to include components on Official Languages. CATSA's Champion of Official Languages and the Official Languages Representative have met with screening contractors to personally brief them on their responsibilities under the *Official Languages Act*. Additionally, CATSA has included an official languages performance component in its new contracts with screening contractors in which they will be evaluated on their ability to provide service in both official languages.

With respect to language of work, CATSA recently adopted an internal Official Languages Policy and all senior managers have been evaluated for the purposes of establishing language training requirements. All documents for the Board of Directors are produced in both official languages as are all documents regarding service to the public. CATSA staff are regularly informed of their responsibilities under the *Official Languages Act* by the Champion of Official Languages and tools are distributed to managers to help them carry out their functions in an official languages friendly manner.

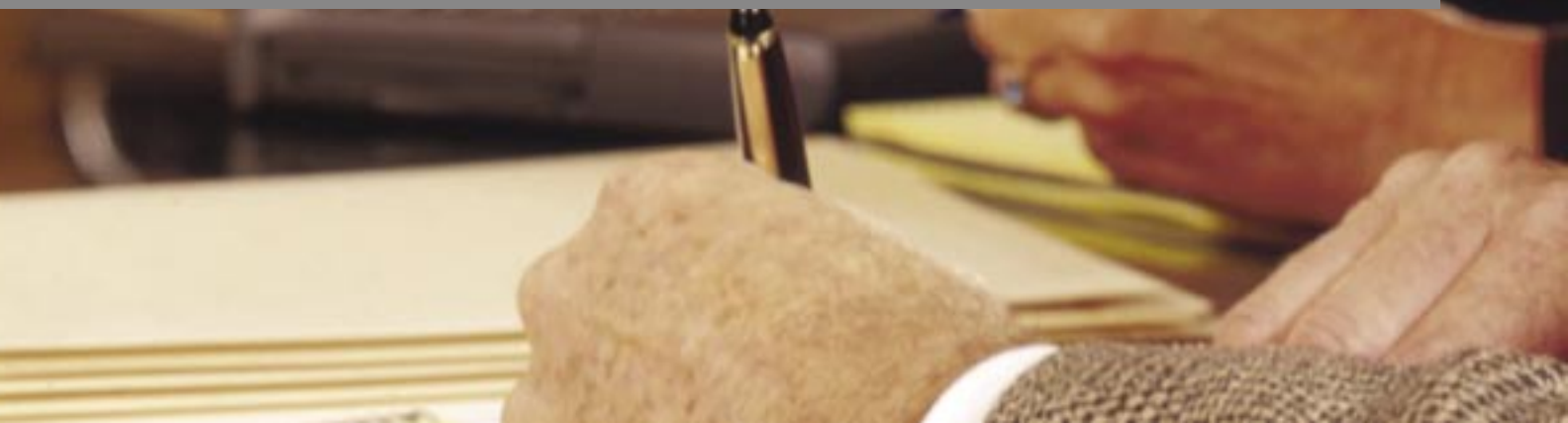




We restructured to ensure we are focusing on 'the right things' today and in the future.



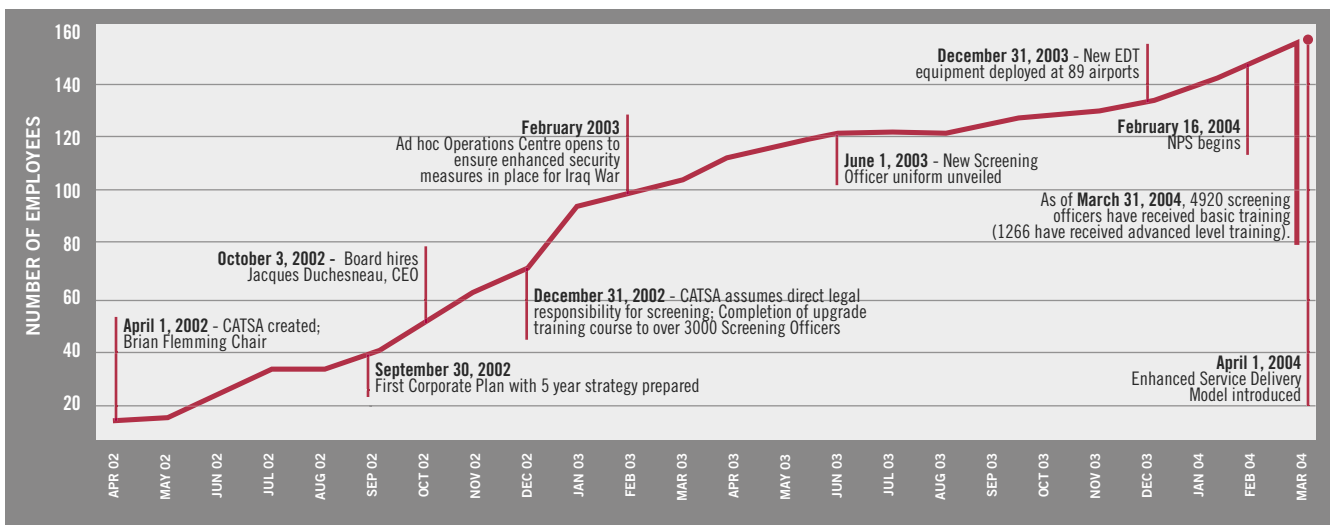
We must be proactive and continually reassess and evaluate the role we play in enhancing global air security.



5 GOVERNANCE

Over the last two years, CATSA has made significant progress putting the people, programs, processes and systems in place to transition from startup to a mature corporation. CATSA's Board of Directors and Management Team take this transition seriously, recognizing that momentum is gained with each and every action taken by the CATSA team towards building a great organization focused on securing air transport.

Guided by its Mission and Vision, CATSA is committed to the process of determining what needs to be done to generate the best future results, and then following those steps, one after the other. Consequently, CATSA is developing and implementing processes and practices consistent with good governance. By implementing rigorous practices at the Board, executive and staff level, CATSA's leadership is ensuring a strong, dedicated team at CATSA.



RECOGNIZING COMMITMENT

In 2003/04, there were changes in the membership of CATSA's Board of Directors. **Ghislaine Richard** and **Pierre Beaudry** moved on to new challenges upon completion of their terms of appointment. Appointed Vice Chair on April 1, 2002, Madame Richard was one of a handful of pioneers at CATSA. She was instrumental in setting up the corporation from the ground up and demonstrated a keen commitment to CATSA and its critical mandate. Mr. Beaudry was an active member of the Board and the Audit Committee. CATSA's Board of Directors and Management Team extend their heartfelt thanks to Madame Richard and Mr. Beaudry for their significant contribution to CATSA.



Pierre Beaudry
President, Aeronautics
Canada (Turnkey) Inc.

In July, 2003, the Board of Directors welcomed Clément Joly to the CATSA team.

CATSA's Board of Directors

The statutory framework for the direction, control and accountability of Crown corporations is provided by Part X of the *Financial Administration Act (FAA)*. The governance regime described in the FAA outlines roles and responsibilities of the corporation's Board of Directors, management, the Minister of Transport (as the responsible minister), the Treasury Board, the Minister of Finance, the Governor in Council, Parliament and external and internal auditors.

Pursuant to the *Canadian Air Transport Security Authority Act*, CATSA's Board of Directors is comprised of a Chair and 10 members appointed by the Governor in Council, on the recommendation of the Minister of Transport, for terms of up to five years. Of these members, two must be nominees proposed by airport operators and two must be nominees proposed by the airline industry. The Act authorizes the Board of Directors to adopt by-laws concerning its own duties and activities. These include by-laws establishing committees of the Board such as the Human Resources Committee and Audit Committee.

As part of the transition from start-up, in 2003/04 CATSA's Board of Directors focused on key areas of Board governance. The Board held a two day special session in December 2003 to discuss the roles and responsibilities of the Board. The recommendations of an ad hoc committee of the Board which undertook a best practices review of committee structures led to the creation of the Corporate Governance and Nominations Committee on April 1, 2004.



Brian Flemming
Chairman



Ghislaine Richard
Vice-Chair (until April 2004)



Steve Baker
President and CEO,
London International Airport



Gordon Cheesbrough
Managing Partner,
Blair Franklin Capital Partners Inc.



Ronald Clark
Retired, formerly Vice-President,
Corporate Safety and Environment,
Air Canada



Clément Joly, FCA
Partner, Raymond Chabot Grant
Thornton



Mary Martin
Assistant to the President, Canadian
Auto Workers Union, Airline Division



Murray Sigler
President and CEO, Calgary Chamber
of Commerce



Darrel Smith
Consultant, Safety and Environmental



Lecia Stewart
Vice-President, Bombardier,
High Speed Rail North America



Anil Wirasekara
Executive Vice-President and Chief
Financial Officer, MacDonald Dettwiler

		CHAIR	VICE-CHAIR	AUDIT COMMITTEE MEMBERS					HUMAN RESOURCES COMMITTEE MEMBERS				
DATE	LOCATION	B. Flemming	G. Richard	M. Sigler	G. Cheestrough	R. Clark	A. Wirasekara	replaced P. Beaudry in July	P. Beaudry	S. Baker	M. Martin	D. Smith	L. Stewart
								C. Joly					
BOD	22-23 Apr-03	1	1	1	1	1	0	N/A	1	1	1	1	1
	12 Jun-03	1	1	1	1	1	1	N/A	1	1	1	1	1
	21 Jul-03	1	1	1	1	1	1	N/A	1	1	0	1	0
	27 Aug-03	1	1	1	1	1	0	1	N/A	1	1	1	1
	16 Oct-03	1	1	0	1	1	1	1	N/A	0	1	1	0
	29 Oct-03	1	1	1	1	1	0	1	N/A	1	1	1	1
	3 Dec-03	1	1	1	1	1	1	1	N/A	1	1	1	1
	21 Jan-04	1	1	1	1	1	0	1	N/A	0	1	1	1
	4 Mar-04	1	1	1	1	0	1	0	N/A	1	1	1	1
Total	9	9	9	8	9	8	5	5	3	7	8	9	7
AC	22 Apr-03	1	0	1	1	1	0	N/A	1				
	27 May-03	0	1	1	1	1	0	N/A	1				
	11 Jun-03	1	0	1	1	1	1	N/A	1				
	26 Aug-03	1	0	1	1	1	1	N/A	N/A				
	25 Nov-03	1	0	1	0	1	0	1	N/A				
	12 Feb-04	0	1	1	0	1	0	1	N/A				
	31 Mar-04	0	1	1	1	1	1	1	N/A				
Total	7	4	3	7	5	7	3	3	3				
HRC	24 Apr-03	1								1	1	1	1
	22 May-03	0								1	1	1	1
	11 Jun-03	1								1	1	1	1
	15 Oct-03	1								0	1	1	0
	21 Jan-04	1								0	1	1	1
	31 Mar-04	1								1	1	1	1
Total	6	5								4	6	6	5

Board Committees – Meetings and Attendance April 1, 2003-March 31, 2004

Board Committees

CATSA's Board committee structure is comprised of an Audit Committee, a Human Resources Committee and the recently created Corporate Governance and Nomination Committee. The Board establishes ad hoc committees from time to time to manage issues of short duration that do not fall into the purview of any of the standing committees.

The Audit Committee provides important oversight and review functions with respect to CATSA's financial management. The Committee members cumulatively bring many years of financial experience including accounting and

financial management expertise. The Audit Committee oversees the development and implementation of the corporation's standards of integrity and behavior, the reporting of financial information, and the establishment of management control practices. In addition to its duties under Section 148 of the *Financial Administration Act*, the Audit Committee ensures rigorous financial oversight by: reviewing the interim and annual financial statements, the auditor's report and the management discussion and analysis section of the annual report; and soliciting the external auditor's judgments about not only the acceptability but the quality of the corporation's accounting principles as applied in its financial reporting. Areas of particular focus in 2003/04 included the approval

of the liability insurance policy, the pension transfer agreement, the explosives detection systems deployment funding envelope, operating and capital budgets and travel policies for both the Board and CATSA employees. The Audit Committee strongly supported the principle that CATSA's procurement policies should reflect core values as set out in the Code of Ethics and Conduct for Employees of CATSA.

In 2003/04, the Audit Committee held seven meetings.

Committee Membership: *Murray Sigler (Chair), Clément Joly, F.C.A., Gordon Cheesbrough, Ronald Clark, Anil Wirasekara and Brian Flemming, Chairman of the Board as ex-officio.*

The Human Resources Committee

was established to review CATSA's human resources policies and strategies, including its compensation and benefits plans, pension plan and performance and evaluation programs. The Committee members provide valuable leadership and assistance with respect to human resources issues. The Committee ensures that proper policies and procedures are developed and implemented with respect to employee treatment, performance and evaluation. In 2003/04, the Human Resources Committee focused on senior management performance pay review, human resource implications of the enhanced screening model, the pension transfer agreement and leadership development process.

In 2003/04, the Human Resources Committee held six meetings.



PREPARING THE NEXT GENERATION

CATSA's management team poses with our summer students

Committee Membership: *Steve Baker (Chair), Mary Martin, Darrel Smith, Lecia Stewart and Brian Flemming, Chairman of the Board as ex-officio.*

The Corporate Governance and Nominating Committee

was created on April 1, 2004, with a view to developing and implementing systems to ensure the good functioning of the Board. This Committee will be responsible for, among other things, establishing and maintaining the process for the performance assessment of the President and CEO, ensuring proper administration and compliance of the Code of Conduct for Board members, making recommendations to the Board on the roles of the Board and Management and reviewing policies and procedures of the Authority with respect to Ethics and Values. The Committee is also charged with developing and implementing procedures and practices for Board evaluation and Board nominations in compliance with the Government of Canada's new appointment process.

Committee Membership: *Clément Joly, F.C.A (Chair), Gordon Cheesbrough, Ronald Clark, Lecia Stewart, Murray Sigler and Brian Flemming, Chairman of the Board as ex-officio.*



Jacques Duchesneau
President
and Chief Executive Officer



Mark Duncan
Executive Vice-President
and Chief Operating Officer



Michael McLaughlin
Vice-President and
Chief Financial Officer



Ian MacKay
Vice-President, Operations



Randall McCauley
Vice-President, Quality



Ann Champoux
Vice-President, Strategy

CATSA's Executive Team

CATSA's Executive Team

CATSA is lead by its President and CEO, **Jacques Duchesneau**, who is supported by the executive team of:

- **Mark Duncan**, Executive Vice-President and Chief Operating Officer;
- **Michael McLaughlin**, Vice-President and Chief Financial Officer;
- **Ian MacKay**, Vice-President Operations;
- **Randall McCauley**, Vice-President Quality;
- **Ann Champoux**, Vice-President Strategy.

The management team represents a new structure that came into effect in April 2004. Highlights of the new structure are the positions of Executive Vice-President, Vice-President Quality, and Vice-President Strategy.

Over the past two years, CATSA has focused on starting up and getting the job done. In looking ahead, CATSA will re-focus its priorities from a startup organization to a more mature, stabilized security-focused corporation and ensuring that CATSA gets the right things done with appropriate quality and performance metrics.

CATSA's senior management team works not in isolation, but as active participants in the day-to-day operations. Employees from all levels

within the organization, from co-op students to Directors, gain valuable experience through their daily interactions with the executive team.

Managing the Team

At March 31, 2004, CATSA had 157 full-time employees working to enhance the air transport security system. With all parts of the organization moving in the same direction, CATSA is building momentum towards achieving its corporate Mission and Vision. Maintaining the momentum requires an effective human resource management approach that recognizes the importance of the individuals that make up the CATSA team. CATSA's recruitment and retention policies are aimed at individuals who embody the organization's personal, professional and organizational core values.

In the past year, CATSA's Human Resources group achieved the following significant accomplishments:

- The establishment of an Occupational Health & Safety Committee;
- The establishment of an Employee Assistance Program;
- The negotiation and implementation of a Pension Transfer Agreement;
- Review and modification of the Performance Management Program;
- The establishment of a Summer Student



Employment Program, a Graduate Student Program, and participation in Co-operative Educational Programs with local universities and colleges.

In responding to human resource needs, CATSA considers security and cost effectiveness in deciding whether to hire its own employees versus engaging consultants.

PENSION TRANSFER AGREEMENT

CATSA's pension plan, which was registered in December 2002, is modelled on the plan provided to government employees under the *Public Service Superannuation Act*. Treasury Board and CATSA signed a Pension Transfer Agreement (PTA) on October 15, 2003. The PTA will provide former government employees who left the public service to join CATSA the option of transferring their pension contributions to the CATSA pension plan. The Plan also allows employees who leave CATSA to work for the public service, the opportunity to transfer their pension contributions from CATSA to the public service plan.



Flying High

Owen Andrusiak (pictured on the right), CATSA's Regional Manager, Ottawa International Airport, and a Lieutenant in the Canadian Forces Reserves, was permitted to make use of CATSA's Headquarters after hours to teach a group of Air Cadets a weekly aviation groundschool course. Following this course, one of Owen's students, Warrant Officer 1st Class, Ed Moy, was awarded the highly-coveted Air Cadet Flying Scholarship. With this scholarship, Ed will be going to camp this summer to earn his Transport Canada private pilot's license.

As a former Air Cadet himself, Jacques Duchesneau, CATSA's President and Chief Executive Officer, was especially pleased to learn of Mr. Moy's success story. He encourages Owen, along with all CATSA's staff, to continue to engage in community development.

Commitment to the Community

CATSA is proud of the extensive community service and leadership demonstrated by its employees. In 2003, CATSA committed to monthly activities with several charitable organizations including L'Arche, the Breast Cancer Society, the Canadian Diabetes Association, the Shepherds of Good Hope, the Children's Wish Foundation, the Canadian National Institute for the Blind and the Young Women's Emergency Shelter. These fundraising activities are organized

by CATSA volunteers and all funds raised stem from individual employee contributions.

In November 2003, CATSA's President and CEO handed over the reigns of the organization to Richard Marchand, its new President and CEO... for the day. "We put together this new program to give exceptional people, who have been through a lot of personal challenges and have given so much to their community, a chance to experience a different environment, in this case, a corporate environment," said Mr. Duchesneau in reference to CATSA's President and CEO for a Day Program. Mr. Duchesneau met Mr. Marchand, who has Down's syndrome, at a children's hospital in Montreal. Richard is an exceptional human being who dedicates his time to raising money for *Téléthon Opération Enfant Soleil*, a Québec-based telethon that raises funds for sick children.



President for a Day

Richard Marchand, CATSA's President and CEO for a day, receiving his access pass from John Stalker, Manager, Corporate Security.



CATSA has made significant progress putting the people, programs, processes and systems in place to make the transition from startup to a mature corporation.



We strive for excellence in the way we deliver security operations and in the way we are accountable to Canadians.

6 FINANCIAL STATEMENTS

Management Discussion and Analysis

The following discussion and analysis of the results of operations and the financial condition of CATSA should be read in conjunction with the financial statements and notes thereto included in this Annual Report. The following summary provides an overview of key comparative data in thousands of dollars. For the purpose of auditing the financial statements of CATSA, the Office of the Auditor General has access to all records. Pursuant to Section 32 of the CATSA Act, information relating to air security related policing programs is contained within other programs.

Key Financial Data

	Fiscal 2004	Fiscal 2003	Budget 2004
Total Recognized Appropriations	\$351,415	\$259,477	-
Operating Funding	234,505	170,261	-
Capital Funding	116,910	89,216	-
Cash	44,241	31,675	-
Accounts Receivable	61,698	45,437	-
Inventory	7,694	4,398	-
Capital Assets (net of amortization)	236,576	115,475	-
EDS capital acquisitions	112,899	110,099*	189,199
RAIC capital acquisitions	1,864	-	4,500
NPS capital acquisitions	3,977	-	8,400
Other capital acquisitions	11,359	13,898	4,313
Accounts Payable and Accrued Liabilities	100,069	59,568	-
Deferred Capital Funding	239,097	132,179	-
Pre-board screening	158,284	125,192	166,258
Air security related policing programs and hold bag screening	55,435	32,890	113,684
Corporate services	25,375	11,903	25,705
Non-passenger screening	1,207	39	16,748
Restricted area identification card	808	39	6,148

* EDS capital acquisitions for fiscal 2003 includes assets transferred to CATSA from Transport Canada

Funding

CATSA's funding is derived primarily through appropriations from the Consolidated Revenue Fund, with a small portion from interest. In late March of 2003, Parliament approved an appropriation of \$459,676 for the 2004 fiscal year. An amount of \$24,521 was re-profiled from fiscal 2003 to fiscal 2004, which resulted in an approved reference level of \$484,197. As a result of changes in the timing of the EDS and NPS equipment deployment schedule, Treasury Board approved, in April 2004, a re-profiling (carrying forward to future years) of \$100,497. Through prudent use of resources, the unused portion of Parliamentary appropriations for 2004 is \$32,285 versus \$39,380 for 2003. Total appropriations for the year amounted to \$351,415, which is split between capital of \$116,910 and operating of \$234,505.

Financial Position

Cash

Cash balances at March 31, 2004 are \$44,241 versus \$31,675 at the same time in the previous year. The increase of \$12,566 is in line with the increased spending, especially in payments to screening providers and EDS capital expenditure, and relates to cash disbursements in April 2004.

Accounts Receivable

Accounts Receivable balance is \$61,698 at year end. \$51,513 is receivable for appropriations and \$8,530 is for recoverable Goods and Services Tax. The increase over last year of \$16,261 is in line with the overall increase in spending.

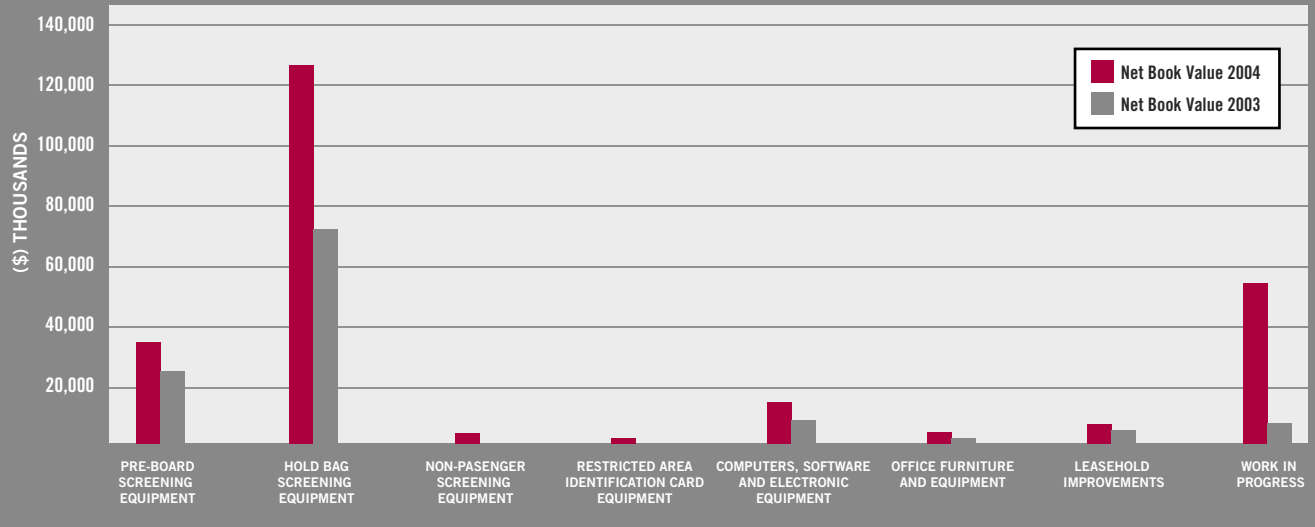
Inventory

Inventory, which includes EDS spare parts and Restricted Area Identification Cards (RAIC) increased from \$4,398 to \$7,694. This increase is due to the addition of an inventory of RAIC with a value of \$2,863. EDS spare parts are located in strategic locations across Canada and serve to ensure minimal downtime of related EDS equipment. The RAIC inventory is anticipated to be distributed in the course of the next fiscal year.

Capital Assets

Capital Assets with a net book value of \$236,576 are recorded as at March 31, 2004. This compares to \$115,475 for the previous year. The \$236,576 is comprised of assets with a cost of \$251,574 netted against accumulated amortization to date of \$14,998. Current year acquisitions amount to \$130,099 and are composed of \$112,899 for EDS equipment, \$5,841 on RAIC and NPS assets, and \$11,359 spent on other capital assets. Additions to capital assets as per the corporate plan were set at \$206,412, but the timing of related expenditures was revised to reflect the net effect of capital funding re-profiles as well as deposits on capital assets. The changes in the timing of the EDS equipment deployment schedule and the delay relating to RAIC and NPS regulations have triggered the capital re-profiles. The budget to actual variance for other assets is a result of increased spending on computer equipment and software and leasehold improvements in regional centers and at headquarters.

Cumulative Capital Assets at Net Book Value



Net book value of capital assets in 2004 versus 2003 by category

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities balance rose from \$59,568 in fiscal 2003 to \$100,069 in fiscal 2004. This rise in Accounts Payable and Accrued Liabilities occurred as a result of the deployment of EDS equipment during the last quarter of the year, as well as an increase in related operating activities. \$51,285 (51%) of the total accounts payable and accrued liabilities relates to EDS equipment and integration costs. \$19,822 (20%) relates to payments for screening services payable within 15 to 30 days.

Deferred Capital Funding

Deferred capital funding reflects the nature of CATSA's funding, in that acquisitions of capital assets are made from the Consolidated Revenue Fund. As such, deferred capital funding offsets the unamortized value of the capital assets on the Balance Sheet.

Results of Operations

Pre-board Screening

Pre-board screening expenses rose from \$125,192 in fiscal 2003 to \$158,284 in fiscal 2004. The budget for 2004 is \$166,258. The majority of the difference between 2003 and 2004 relates to anticipated increases of payments to screening providers. The 2004 expense is in line with the budget of \$166,258.

Air Security Related Policing Programs and Hold Bag Screening

Air security related policing programs and hold bag screening expenses for fiscal 2004 amounted to \$55,435 compared to \$32,890 in the previous fiscal year. Budgeted costs for 2004 are \$113,684. The budget to actual variance is mainly due to a change in the timing in the EDS deployment schedule, as well as a change in the capital asset amortization policy. Costs included in this category include contributions payments to certain Airport Authorities to partially offset the costs of aviation security-related policing, the Canadian Air Carrier Protection Program, which places RCMP officers on flights, and all costs associated with the screening of checked baggage. Pursuant to Section 32 of the *CATSA Act*, information relating to air security related policing programs is not made public.

Corporate Services

Corporate services expenses of \$25,375 are recorded on the statement of operations for the year ended March 31, 2004. The comparative figure for the year ended March 31, 2003 is \$11,903. Actual expenses for 2004 are in line with the budget of \$25,705. These costs include employee salaries, benefits, professional services, insurance, as well as rent and facilities related costs. CATSA's corporate services support the operation through the delivery of IT, human resources, accounting operations, planning services including public awareness, legal as well as procurement and contracting.

Non-passenger Screening and Restricted Area Identification Card

Non-passenger screening expenses for the year amount to \$1,207 compared to \$39 for the previous year and a 2004 budget of \$16,748. Restricted area identification card expenses in fiscal 2004 were \$808 compared to \$39 for fiscal 2003 with a 2004 budget of \$6,148. Initial planning for these programs occurred during both fiscal years, with implementation of the programs beginning primarily after April 1, 2004. The launch of the program was delayed awaiting the required regulations.

Net Surplus For the Year

Net surplus for the year was \$5,341 compared to \$6,115.

Canadian Air Transport Security Authority

Management's Responsibility Statement

For the year ended March 31

Management of the Authority is responsible for the preparation and integrity of the financial statements contained in this Annual Report. These statements, recommended by the Audit Committee and approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. Information contained in the Annual Report is consistent with that contained in the financial statements.

To fulfill its responsibilities, the Authority maintains systems of internal control, policies and procedures to provide reasonable assurance that relevant and reliable financial information is produced. In addition, these systems of control exist to protect the assets of the Authority.

The Audit Committee of the Board of Directors, consisting solely of outside Directors, frequently meets with the external auditor – the Auditor General of Canada – and with management to ensure that the assets of the organization are properly protected, to review financial information produced and to review the internal controls of the Authority.

The Authority's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing her report thereon.



Jacques Duchesneau, C.M.
President and Chief Executive Officer



Michael McLaughlin, C.M.A.
Vice President and Chief Financial Officer

June 2, 2004



AUDITOR'S REPORT

To the Minister of Transport

I have audited the balance sheet of the Canadian Air Transport Security Authority as at March 31, 2004 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in accounting policy for amortization of Explosive Detection System equipment as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Air Transport Security Authority Act* and the by-laws of the Authority.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
June 2, 2004

Canadian Air Transport Security Authority

Balance Sheet

As at March 31

(Thousands of dollars)

	2004	2003 Restated (note 3)
Assets		
Current		
<i>Cash</i>	\$44,241	\$31,675
<i>Accounts receivable (note 5)</i>	61,698	45,437
<i>Inventory</i>	7,694	4,398
<i>Prepaid expenses</i>	1,091	203
<i>Deposits on purchase of capital assets (note 6)</i>	2,521	3,515
	117,245	85,228
Capital assets (note 6)	236,576	115,475
	\$353,821	\$200,703
Liabilities		
Current		
<i>Accounts payable and accrued liabilities</i>	\$100,069	\$59,568
Employee future benefits (note 7)	523	165
Deferred capital funding (note 8)	239,097	132,179
	339,689	191,912
Government of Canada Equity		
<i>Equity</i>	14,132	8,791
	\$353,821	\$200,703

Commitments (note 10)

Approved on behalf of the Board of Directors


Director


Director

On behalf of Management


Vice-President and Chief Financial Officer

The accompanying notes form an integral part of the financial statements.

Canadian Air Transport Security Authority

Statement of Operations and Equity

For the year ended March 31

(Thousands of dollars)

	2004	2003
Expenses		Restated (note 3)
<i>Pre-board screening</i>	\$158,284	\$125,192
<i>Air security related policing programs and hold bag screening</i>	55,435	32,890
<i>Corporate services</i>	25,375	11,903
<i>Non-passenger screening</i>	1,207	39
<i>Restricted area identification card</i>	808	39
	241,109	170,063
Revenues		
<i>Interest revenue</i>	1,171	902
<i>Foreign exchange gain</i>	782	8
	1,953	910
Net operating loss before government funding	239,156	169,153
Government funding		
<i>Parliamentary appropriations for operating expenses (note 4)</i>	234,505	170,261
<i>Amortization of deferred capital funding (note 8)</i>	9,992	5,007
	244,497	175,268
Net surplus for the year	5,341	6,115
Equity, beginning of year	8,791	-
Contributions from Transport Canada (note 12)	-	2,676
Equity, end of year	\$14,132	\$8,791

The accompanying notes form an integral part of the financial statements.

Canadian Air Transport Security Authority

Statement of Cash Flows

For the year ended March 31

(Thousands of dollars)

	2004	2003
Cash flows from (used in)		Restated (note 3)
Operating activities		
<i>Net surplus for the year</i>	\$5,341	\$6,115
<i>Items not affecting cash:</i>		
<i>Amortization of capital assets (note 6)</i>	9,992	5,007
<i>Employee future benefits</i>	358	165
<i>Amortization of deferred capital funding (note 8)</i>	(9,992)	(5,007)
<i>Net change in non-cash working capital balances (note 12)</i>	20,056	12,206
	25,755	18,486
Financing activities		
<i>Parliamentary appropriations for capital funding (note 4)</i>	116,910	89,216
	116,910	89,216
Investing activities		
<i>Acquisition of capital assets</i>	(130,099)	(76,027)
	(130,099)	(76,027)
Net cash inflow	12,566	31,675
Cash, beginning of year	31,675	-
Cash, end of year	\$44,241	\$31,675

Supplementary cash flow information – Note 12

The accompanying notes form an integral part of the financial statements.

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 1: Authority, objects, and programs

The Canadian Air Transport Security Authority (CATSA) was established under the *Canadian Air Transport Security Authority Act* (the "CATSA" Act), which came into force on April 1, 2002.

The Government's objectives in the establishment of CATSA were to enhance air transport security, improve public confidence in the air transport security system, increase Government visibility in air transport security, provide a consistent approach across the system, integrate air transport security services and deliver services in an efficient and effective manner, having due regard to the interest of the travelling public. In assuming responsibility for certain air transport security functions previously undertaken by the private sector, the Government of Canada made it clear that CATSA's actions were to be driven by security concerns, not economic considerations.

CATSA's primary objective is to further the Government of Canada's objectives through the effective delivery of its mandated responsibilities. CATSA's responsibilities under the CATSA Act fall into five major areas:

1. Pre-Board Screening of Passengers and their carry-on baggage;
2. Hold Bag Screening;
3. Air security related Policing Programs;
4. Non-Passenger Screening at major airports;
5. Restricted Area Identification Card for major Canadian airports.

Responsibilities relating to non-passenger screening at major airports and restricted area identification card for major Canadian airports were assigned to CATSA on November 5, 2002 pursuant to sub-section 6(2) on the CATSA Act, which allows the Minister of Transport to assign other air transport security functions to CATSA. Initial planning for these responsibilities started during the period from November 2002 to March 2004, with implementation primarily starting after April 1, 2004.

CATSA is not subject to income tax under the provisions of the *Income Tax Act*.

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 2: Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies.

(a) Measurement uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Inventory is recorded net of an appropriate provision for obsolescence. The estimated useful life of capital assets, the percentage of completion of work in progress and the assumptions underlying the employee future benefits calculation are the most significant items where estimates are used. Actual results could differ from these estimates.

(b) Inventory

The inventory consists primarily of spare parts acquired for internal construction and maintenance and the restricted area identification cards, and is valued at the lower of weighted average cost or replacement cost.

(c) Capital assets

Capital assets transferred from Transport Canada at the creation of CATSA were recorded at their carrying value at that date. Capital assets acquired after that date are recorded at cost. The cost of assets includes shipping and installation costs. Amortization is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Preboard screening equipment:	7 years
Hold bag screening equipment:	7 years
Non-passenger screening equipment:	7 years
Restricted area identification card equipment:	7 years
Computers, software and electronic equipment:	3 years
Office furniture and equipment:	5 years

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 2: Significant accounting policies (continued)

Leasehold improvements are capitalized and amortized on a straight-line basis over the life of the related leases.

Amounts included in work in progress are transferred to the appropriate capital asset classification upon completion, and are then amortized according to the above stated policy.

(d) Employee future benefits

CATSA maintains two defined benefit pension plans, a registered pension plan (RPP) and a supplementary pension plan (SPP), to provide retirement benefits to its employees. CATSA also provides other retirement and post-employment benefits (other benefit plans) for employees including short and long term disability, post-retirement health care, dental care, and life insurance. The cost of pension benefits and other benefit plans earned by employees is actuarially determined using the projected benefit method prorated on service which incorporates expected investment performance, salary escalation, retirement ages of employees and trends in health care and dental costs. Management considers that the assumptions used to determine the accrued benefit obligation and the net benefit expense of pension benefits and other pension benefits, except for the benefit obligation discount rate, are of a long-term nature, which is consistent with the long-term nature of employee future benefits.

The net pension plan expense consists of the actuarially determined pension benefits for the current year's service, imputed interest on projected pension obligations net of interest earned on pension assets and the amortization of actuarial gains or losses over the expected average remaining service life (EARSL) of active employees expected to receive benefits under the plan. For the purpose of calculating the expected return on plan assets, those assets are valued at market-related values. Amortization of past incurred costs such as the cost of plan amendments is recorded on a straight line basis over the EARSL for plan members, which has been determined to be 19 years for the RPP, 14 years for the SPP and 12 years for the other benefit plans. The cumulative actuarial gains (losses) are amortized over the EARSL to the extent it exceeds 10 per cent of the greater of the accrued benefit obligation and the market-related value of plan assets at the beginning of the year.

The latest valuation was completed by an independent actuary as at December 31, 2003. The measurement

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 2: Significant accounting policies (continued)

date used to determine the plan assets and the accrued benefit obligation is December 31, 2003.

The cumulative difference between the employee benefit expense and funding contributions is reflected in the balance sheet as accrued benefit liability.

(e) Parliamentary appropriations

CATSA's primary source of funding is appropriations received from the Government of Canada. Parliamentary appropriations for operating expenses are recorded on the statement of operations. Parliamentary appropriations for capital assets are recorded as deferred capital funding and amortized on the same basis and over the same periods as the related capital assets. Upon disposition of funded depreciable capital assets, CATSA recognizes into income all remaining deferred capital funding related to these capital assets.

(f) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. All exchange gains and losses are included in determining net operating loss for the period.

(g) Security considerations

In the interest of security at airports in Canada and pursuant to Section 32 of the CATSA Act, information relating to air security related policing programs is not made public. To achieve this, the statement of operations and equity combines the expenses relating to hold bag screening and air security related policing programs.

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 3: Change in Accounting Policy

In the current year, CATSA has changed its accounting policy related to amortization of capital assets. CATSA has decided to begin amortization of Explosive Detection System (EDS) equipment after it is fully implemented and operational, while last year, CATSA had started to amortize these assets on the date CATSA took possession. This change has no effect on this year's net surplus, but has reduced both the amortization of equipment and the related amortization of deferred capital funding by \$10,737. This change in accounting policy has been applied retroactively. For the year ended March 31, 2003, both the amortization of equipment and the related amortization of deferred capital funding have been reduced by \$4,859, leaving the net surplus unchanged. Consequently, the financial statements for the year ended March 31, 2003 have been restated as follows:

	2003 restated	2003 as previously stated
Balance Sheet		
<i>Capital assets</i>	\$115,475	\$110,616
<i>Deferred capital funding</i>	132,179	127,320
Statement of Operations		
<i>Expenses</i>	170,063	174,922
<i>Amortization of deferred capital funding</i>	5,007	9,866
Statement of Cash Flows		
<i>Amortization of capital assets</i>	5,007	9,866
<i>Amortization of deferred capital funding</i>	5,007	9,866
Notes to Financial Statements		
<i>Net book value (note 6)</i>	115,475	110,616
<i>Amortization of deferred capital funding (note 8)</i>	5,007	9,866
<i>Deferred capital funding balance, end of year</i>	\$132,179	\$127,320

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 4: Parliamentary appropriations

Parliamentary appropriations approved and amounts recognized by CATSA during the year are as follows:

	2004	2003
Parliamentary appropriation approved	\$459,676	\$340,000
Re-profiled amount approved for subsequent years as per 2002-2003 Corporate Plan	-	(16,622)
Re-profiled amount approved for subsequent years as per 2003-2004 Corporate Plan	24,521	(24,521)
Re-profiled amounts approved for subsequent years	(100,497)	-
Unused portion of Parliamentary appropriation	(32,285)	(39,380)
Total recognized appropriations	\$351,415	\$259,477
Appropriations were recognized as follow:		
Operating funding	\$234,505	\$170,261
Capital funding (note 8)	116,910	89,216
Total recognized appropriations	\$351,415	\$259,477

Note 5: Accounts receivable

Accounts receivable are comprised of:

	2004	2003
Parliamentary appropriations	\$51,513	\$40,477
Goods and Services Taxes	8,530	2,396
Other	1,655	2,564
	\$61,698	\$45,437

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 6: Capital assets

	Cost	Accumulated Amortization	Net book value 2004	Net book value 2003
				restated (note 3)
Pre-board screening equipment	\$42,146	\$9,107	\$33,039	\$26,457
Hold bag screening equipment	124,909	999	123,910	71,964
Non-passenger screening equipment	3,977	1	3,976	-
Restricted area identification card equipment	1,864	87	1,777	-
Computers, software and electronic equipment	15,233	3,437	11,796	6,209
Office furniture and equipment	2,753	525	2,228	1,544
Leasehold improvements	8,099	842	7,257	2,785
Work in progress	52,593	-	52,593	6,516
	\$251,574	\$14,998	\$236,576	\$115,475

On April 1, 2002 Transport Canada transferred screening equipment with a net book value of \$47,970 to CATSA for a purchase price of \$1. The net book value of this equipment has been included with hold bag screening and pre-board screening equipment.

As at March 31, 2004, deposits of \$2,521 (2003 - \$3,515) were made towards the purchase of capital assets and have been included on the balance sheet.

The current year amortization amounts to \$9,992.

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 7: Employee future benefits

CATSA maintains defined benefit plans providing pension and other retirement and post-employment benefits to its employees. Pension benefits are based on the average of the best 5 consecutive years of pensionable salary. Employees are required to contribute a percentage of their pensionable salary to the plan, with CATSA providing the balance of funding as required, based on actuarial valuations, with payments to the fund being made monthly.

Based on the actuarial determined valuations of the pension plans and other benefit plans, the status of the plans are as follows:

	Pension benefit plans		Other benefit plans	
	2004	2003	2004	2003
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	\$5,283	\$-	\$-	\$-
CATSA contributions	802	-	-	-
Plan participants' contributions	451	-	-	-
Benefit payment and transfers	156	5,227	-	-
Actual return on plan assets	429	56	-	-
Fair value of plan assets at end of year	\$7,121	\$5,283	\$-	\$-
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	\$6,639	-	\$538	\$436
Plan participants' contributions	451	-	-	-
Service cost	1,148	180	258	38
Prior service cost	-	811	-	-
Interest cost	521	68	56	6
Benefit payment and transfers	156	5,227	-	-
Actuarial loss	421	353	316	58
Accrued benefit obligation at end of year	\$9,336	\$6,639	\$1,168	\$538
Reconciliation with Funded Position				
Unfunded liabilities	(\$2,215)	(\$1,356)	(\$1,168)	(\$538)
4th quarter contribution adjustment	600	88	-	-
Unamortized prior service cost	762	804	373	430
Unamortized net actuarial loss	731	349	394	58
Accrued benefit liability at end of year	(\$122)	(\$115)	(\$401)	(\$50)

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 7: Employee future benefits (continued)

Plan assets are held by Standard Life. Based on the fair value of the plan assets at March 31, 2004, the assets of the RPP were composed of 65% in equity, 35% in bonds, and 0% in short-term securities and cash (2003 – there were no invested assets in the plan). There were no invested assets in the SPP's as of March 31, 2004.

Annual rate of increase assumptions in the per capita cost of health care benefits used in performing the actuarial valuation of employee future benefits, were 11% for drugs, and 9% for hospital costs grading down to 5% over 10 years and level thereafter (2003 - 9% grading down to 5% over 10 years), and 4% for dental (2003 - 4%). The assumed health care cost trend rate for the next year is 9.4% grading down to 4.9% over 10 years (2003 – 9.4% grading down to 4.9% over 10 years). A one percentage point increase in assumed health care cost trend rates would have increased the service and interest costs and obligation by \$ 63 and \$ 238 respectively for post-retirement benefits. A one percentage point decrease in assumed health care cost trends would have lowered the service and interest costs and the obligation by \$ 48 and \$ 179 respectively for post-retirement benefits.

Since CATSA made contributions to the fund between the measurement date and the fiscal year-end date, an adjustment must be made for such contributions in the reconciliation of the funded status of the plan provided in the notes.

	Pension benefit plans		Other benefit plans	
	2004	2003	2004	2003
Net benefit expense incurred in the period				
Current service cost	\$1,148	\$180	\$258	\$38
Interest cost	521	68	56	6
Actuarial loss	421	353	316	58
Actual return on plan assets	(429)	(56)	-	-
Net benefit expense incurred in the period	\$1,661	\$545	\$630	\$102
Net benefit expense recognized in the period				
Current service cost	\$1,148	\$180	\$258	\$38
Interest cost	521	68	56	6
Expected return on plan assets	(390)	(52)	-	-
Amortization of prior service cost	43	7	37	6
Amortization of net actuarial loss (gain)	-	-	-	-
Net benefit expense recognized in the period	\$1,322	\$203	\$351	\$50

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 7: Employee future benefits (continued)

A discount rate assumption of 6.5% (2003 - 7%) and an expected rate of return on plan assets assumption of 6.75% (2003 – 6.75%) were used to determine the benefit expense of the pension benefit plans.

A discount rate of 6.5% (2003 – 7.0%) was used to determine the benefit expense of the other benefit plans. A compensation increase assumption of 4.75% (2003 – 4.75%) was used for all plans to determine the pension benefit expense.

The significant weighted-average assumptions used to determine CATSA's accrued benefit obligations are as follows:

	Pension benefit plans		Other benefit plans	
	2004	2003	2004	2003
Discount rate	6.50%	7.00%	6.50%	7.00%
Inflation	3.00%	3.00%	3.00%	3.00%
Long-term rate of compensation increase (including inflation and promotion)	4.75%	4.75%	4.75%	4.75%

Employees transferring from the Federal Public Service are given the option to transfer pension benefits and benefit obligations to CATSA's pension plan as a Reciprocal Transfer Agreement is in place, or to leave them with the Public Service Superannuation Plan until retirement. Management has assumed that all entitled employees will transfer such pension credits. It is estimated that the transfer of pension benefits will result in an unfunded liability which is already factored into the reconciliation with funded position shown above (see unamortized prior service cost).

The SPP has been funded by a payment made after year end. The unfunded liability in the RPP will be amortized over the expected average remaining service life of the related active employees.

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 8: Deferred capital funding

Parliamentary appropriations for capital assets are recorded as deferred capital funding and amortized on the same basis and over the same periods as the related capital assets.

	2004	2003 restated (note 3)
Balance, beginning of year	\$132,179	\$ -
Parliamentary appropriations to finance the acquisition of capital assets	116,910	89,216
Transfer of screening equipment from Transport Canada at net book value	-	47,970
Amortization of deferred capital funding	(9,992)	(5,007)
Balance, end of year	\$239,097	\$132,179

Note 9: Financial instruments

CATSA's financial instruments consist of cash, accounts receivable, and accounts payable and accrued liabilities. Management believes the carrying values of the financial instruments approximate their fair value, due to their short term to maturity. CATSA does not believe it is exposed to significant credit risk due to the nature of the instruments. CATSA is also exposed to foreign exchange risk in that some of its transactions are denominated in foreign currencies. CATSA does not currently hedge its exposure to currency rate fluctuation.

Note 10: Commitments

Operating leases

CATSA is committed under operating leases for the rental of equipment and office space. Minimum annual lease payments under the terms of these leases are as follows:

	Year ending March 31
2005	\$3,118
2006	3,116
2007	3,030
2008	2,934
2009	2,741
2010 to 2013	9,639
	\$24,578

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 10: Commitments (continued)

Other Contractual obligations

CATSA is committed under various contracts for equipment purchases, screening services and equipment maintenance over the next four years:

	Year ending March 31
2005	\$320,162
2006	214,704
2007	144,799
2008	2,206
	<hr/>
	\$681,871

For the reasons disclosed in note 2(g), commitments relating to air security related policing programs are not disclosed in this note.

Note 11: Related party transactions

CATSA is related to the Government of Canada, its departments and other agencies. CATSA enters into transactions with these entities in the normal course of operations, and pursuant to authority given in the CATSA Act.

During the year, CATSA had the following transactions at fair value with related parties in addition to those disclosed elsewhere in these financial statements:

- Royal Canadian Mounted Police (RCMP). For reasons disclosed in note 2(g), expenses relating to air security related policing programs are not disclosed in this note.
- Consulting and Audit Canada (CAC). Expenses during the year amounted to \$988, with \$180 as an outstanding balance included in accounts payable and accrued liabilities.
- Public Works and Government Services Canada (PWGSC). Expenses during the year amounted to \$2,074, with \$704 as an outstanding balance included in accounts payable and accrued liabilities.
- Translation Bureau. Expenses for the year amounted to \$301, with \$129 as an outstanding balance included in accounts payable and accrued liabilities.

Canadian Air Transport Security Authority

Notes to Financial Statements

For the year ended March 31, 2004

(Thousands of dollars)

Note 11: Related party transactions (continued)

(e) Transport Canada. Expenses for the year amounted to \$149, with \$46 as an outstanding balance included in accounts payable and accrued liabilities.

In addition to the aforementioned transactions:

(f) PWGSC provides contract management services at no cost to CATSA. It is not practicable to determine the cost of these services. Accordingly, the value of these services is not recorded in the financial statements.

Note 12: Net change in non-cash working capital balances and supplementary cash flow information

	2004	2003
Accounts receivable	(\$16,261)	(\$45,437)
Inventory	(3,296)	(2,312)
Prepaid expenses	(888)	387
Accounts payable and accrued liabilities	40,501	59,568
	\$20,056	\$12,206

In 2003, Transport Canada transferred spare parts and consumables with a net book value of \$2,086 and \$590 respectively, for a purchase price of zero dollars.

Interest revenue recognized and received for the year ended March 31, 2004 amounted to \$1,171 (2003 - \$901).

Note 13: Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

A

PPENDIX A

Map of Designated Airports

