



Anticipating the Unexpected

2005

Annual Report



Canadian Air Transport
Security Authority

Administration canadienne
de la sûreté du transport aérien

Canada 

For more information, visit our Web site at: www.catsa-acsta.gc.ca

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This publication is printed and bound in Canada

Catalogue No. CC401-2005
ISBN 0-662-68856-2





“CATSA dedicates this publication to the memory of our dear friend and colleague

Lorrain Audy who served as Director, Office of the President and CEO.

Larry passed away in 2005 after a lengthy and courageous battle with cancer.”



Glossary

HBS

Hold Bag Screening: the screening of checked baggage using explosive detection equipment.

PBS

Pre-Board Screening: the screening of passengers, their belongings and carry-on baggage

NPS

Non-Passenger Screening: the screening of non-passengers accessing restricted areas of airports. Non-passengers include flight crews, refuelers, caterers, aircraft groomers, maintenance and construction personnel, baggage handlers and concession staff.

EDS

Explosives Detection Systems: manual or automated systems used primarily to check for explosives in carry-on and checked baggage.

SeMS

Security Management System - a systematic approach to setting annual security targets, clarifying security roles and responsibilities in an organization, assessing and managing risks, developing contingency plans, conducting audits, and measuring and evaluating performance on an ongoing basis.

BIOMETRIC

A technology that uses a person's physical characteristics, such as a fingerprint or iris, to verify the identity of that person.







2005 Annual Report

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Message from the Chairman



This will be my final message as CATSA's Chairman. Looking back over CATSA's first three years, I am proud to tell Canadians that we have succeeded in working with our partners to build a security system to deter possible terrorist attacks at Canadian airports or on Canadian aircraft.

CATSA cannot, however, be complacent as it moves forward because those in the security community must "get it right" all the time. The terrorists only have to "get it right" once. CATSA's prime mission in the coming year will be to continue to secure critical elements of the air transportation system, while anticipating the unexpected.

CATSA has made considerable strides since its founding, only a few short months after the tragedy and shock of September 11, 2001. Because CATSA was the Canadian government's principal response to these attacks on the United States, the organization had to be built quickly and competently in the face of intense national and international pressure.

I believe we have succeeded thus far because we have assembled an excellent team at CATSA's head office in Ottawa and have put together one of the foremost training courses anywhere in the world for our more than 4000 screening officers.

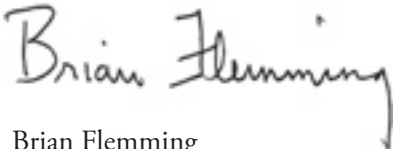


CATSA is on target for deployment of explosives detection systems at Canada's airports; we have implemented a non-passenger screening system and are rolling out a new restricted area identification card at Canada's airports; we have adopted a first-class system of performance measurement; and, in partnership with the RCMP, we have overseen the deployment of a well-trained group of aircraft protective officers on Canadian aircraft.

At the Board of Directors' level, CATSA introduced a high standard of best practices in its guidelines for governance and ethics. CATSA has adhered closely to the Government's new guidelines for selecting chairs and board members of Crown corporations, and has been completely transparent in reporting expenses paid to Board members and senior managers.

All of these achievements would not have been possible without the dedicated service of CATSA's hard-working Board of Directors and its highly motivated management team, under the charismatic leadership of Jacques Duchesneau, CATSA's President and CEO. I thank each and every one of them.

CATSA is unique in the world in having at its Board table representatives nominated by two of its principal stakeholders – the Canadian Airports Council (CAC) and the Air Transport Association of Canada (ATAC). I am grateful to those representatives for having served both CATSA and their respective organizations so well. I wish to thank the Government of Canada, the Minister of Transport, and our regulator, Transport Canada, for their cooperation with, and support of, CATSA. Finally, I wish to offer my best wishes to CATSA's new Chair, Maurice Baril, who will bring many years of distinguished leadership and public service to the Authority.



Brian Flemming

Message from the President and CEO

Created as part of the measures aimed at improving safety for air travellers following the September 11, 2001 attacks, the Canadian Air Transport Security Authority (CATSA) quickly grew into a solid and reliable organization. CATSA is now just three years old, but it has already established itself as a world leader in its field.

CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the government and we take all necessary measures to ensure our success. We have recruited qualified and experienced staff, we provide unique basic and specialized training for airport screening officers and we have deployed sophisticated, leading-edge explosives detection equipment.

All international terrorism experts agree that security organizations can only succeed if they share information and best practices. To this end, CATSA attends many national and international conferences on aviation security and, in February 2005, we co-chaired the annual invitational Aviation Security Screening Symposium in South Africa. These occasions provide us with opportunities to share our achievements and challenges with other organizations responsible for airport passenger and baggage screening. The travelling public in Canada and around the world benefits the most from these activities.

We also work closely with Transport Canada, the International Civil Aviation Organization (ICAO), the Air Transport Association of Canada (ATAC), air carriers, the Canadian Airports Council (CAC), Canadian airports, the RCMP, local police forces and national security organizations. We have deployed a network of airport cameras that are linked to our Security Communications Centre to help protect the integrity of the screening process. We have also strengthened our risk management system, which will improve our capacity to prevent, react to and be proactive with regard to potential incidents.





We must remain alert and vigilant and this is the message we give to our screening officers and to all employees. We take steps to ensure that we are immediately informed of any situation of which screening officers need to be aware in an effort to increase our effectiveness and response time.

Canadians' confidence in air transport security has increased. The number of passengers travelling by plane now exceeds the number prior to September 11, 2001 and all indications are that this number will continue to increase. We are aware that although we help ensure travellers' security, we are also an inconvenience for some travellers. While security will always remain the top priority, we are taking all necessary steps to speed up the screening process and to ensure that all actions are respectful of individuals' rights. Feedback from passengers suggests the majority of them feel that the security measures provide additional assurance.

In closing, I would like to thank our founding Chairman of the Board, Mr. Brian Flemming, whose term ended on March 31. His dedication and hard work contributed to making CATSA a leading professional organization. I would also like to thank the staff at CATSA, our screening providers and their employees, our partners, as well as our Board of Directors for their support and cooperation. Because of you, the public can travel in full confidence: they have never been better protected.

I am pleased to present CATSA's third Annual Report.

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

who



WHO WE ARE



“The key to CATSA’s success as it strives to be a leading security organization in the world is building the capacity to detect and deter threats to Canada’s air transportation system. A good security organization will deal with the unexpected. A great organization will anticipate the unexpected. At CATSA, we strive everyday to be the latter.”

– Jacques Duchesneau, President and CEO of CATSA

CATSA is a Crown corporation created on April 1, 2002, when the Government of Canada assumed a more direct role in Canada’s aviation security, most notably in the area of screening passengers and their belongings. Over the past year, more than 35 million passengers travelled on aircraft departing from Canada’s major airports and that number continues to grow. CATSA’s primary responsibility is to enhance the security of the travelling public by ensuring that threat items are not carried onto an aircraft. In this way, CATSA is the public face of aviation security and a key building block for public confidence in Canada’s transportation system.

CATSA adheres to the following Mission and Vision statements to help inspire and guide the entire CATSA team in the execution of its critical mandate.

MISSION

The Canadian Air Transport Security Authority’s mission is to protect the public by securing critical elements 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 transportation system
- Being cost effective
- Striving for excellence
- Networking with partners
- Establishing clear accountabilities
- Pursuing innovation
- Fostering ethics and values
- Continuously improving through the implementation of best practices

In a world of changing and emerging threats, as well as other challenges and risks associated with protecting Canada's air transportation system, CATSA has positioned itself to be a highly reliable organization. Preoccupied with the possibility of failure, CATSA is sensitive to operations, committed to resilience and intent on integrating all aspects of security into daily operations. Since failure to successfully carry out its mandated activities is not an option, the ongoing challenge for CATSA is anticipating the unexpected. In effect, the key to resilience is building an organization that has the flexibility to adapt quickly to changing circumstances and the capacity to detect and deter threats before they become imminent dangers.

The threat of terrorism is more complex, extreme, sophisticated and transnational than ever before. Globally, there is clearly an ongoing willingness on the part of groups, individuals and even states to use violence in support of political, ideological and religious agendas. Cooperation on the domestic and international level is crucial to effectively combating the threat.
– Giuliano Zaccardelli, RCMP Commissioner

In 2004, CATSA improved its ability to anticipate and react to unexpected challenges, including those that could have had a financial or operational impact on the corporation. For example, CATSA established a performance payment program to foster a culture of excellent service and help mitigate against service disruptions to the air transportation system through the use of incentives to service providers. Through the implementation of a Business Intelligence (BI) system and the use of Quarterly Performance Reports, CATSA's Board of Directors and senior management are able to identify and closely monitor the leading performance indicators of the corporation. By implementing the Balanced Scorecard as a strategic management tool, CATSA's management and employees can more tightly align their decision-making and activities with corporate strategy.

As a Crown corporation publicly funded through parliamentary appropriations, CATSA takes its financial responsibilities to the Canadian public seriously. We also recognize the economic vulnerability of our key stakeholders in the post-September 11 security climate. An important part of carrying out our business is working with our partners to build the most seamless air transportation security system possible in a way that does not compromise our mandated responsibilities.

In just three years, CATSA has transitioned toward becoming a mature entity and, in the process, achieved cost efficiencies and improved oversight in a number of areas of its operations. However, CATSA is fully aware that cost savings can never be an end in itself where security is concerned.



**DETECT, DETER, REACT, RECOVER, REFORM –
Words to Live By in a Changing World**

An emerging concept in the international security community is the notion of “Detect, Deter, React, Recover.” Recognizing the importance of this key security concept, CATSA has included it as part of its overall strategy and has even added a fifth element – Reform – to better reflect ongoing objectives. CATSA engages the international security and academic communities to detect new and emerging threats to the air transport system. CATSA's security screening programs in turn focus on deterrence. Screening procedures are designed to ensure that threat objects cannot be brought onto a plane by either passengers or non-passengers, in baggage or on their person. In terms of reacting, CATSA's role is to alert authorities when a threat item is intercepted at screening points, or when a person unlawfully attempts to enter a restricted area of an airport or board a plane. In terms of recovery after an incident, CATSA cooperates with police, airlines, and airport authorities, with whom CATSA has developed important relationships. CATSA utilizes lessons learned from day-to-day operations and incidents to reform its strategy and its standard operating procedures to enhance the security system.



SECURITY PROGRAMS

In order to fulfil our mandate, CATSA's activities are divided into six programs:

1. *Screening passengers and their carry-on baggage*

CATSA is responsible for pre-board screening at 89 designated airports. 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 airplane.

2. *Screening checked baggage*

Through the use of state-of-the-art explosives detection system equipment, CATSA is responsible for screening checked baggage at designated airports. This responsibility includes the purchase, integration and certification of equipment while also overseeing its operation and maintenance.

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

Screening of non-passengers at restricted-area access points and/or inside restricted areas occurs on a 24 hour/7 day basis at Canada's major 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. This includes flight crews, caterers, maintenance personnel, and baggage handlers. Non-passenger screening is another important component in CATSA's layered approach to security.

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 Pass. CATSA is working with Transport Canada and major airports to replace this pass with a Restricted Area Identification Card (RAIC). The addition of 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. *Administering the Canadian Air Carrier Protective Program*

CATSA provides funding to the Royal Canadian Mounted Police (RCMP) to place specially trained police officers onboard selected Canadian commercial aircraft.

6. *Administering airport policing funding agreements*

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





Governance





C o r p o r a t e G o v e r n a n c e a n d M a n a g e m e n t

B o a r d o f D i r e c t o r s

Following the collapse of companies like Enron in the United States and the enhanced scrutiny of Crown corporation governance here in Canada, 2004 could be hailed as the “Year of Governance Review”. As a relatively new corporation, CATSA has the enviable opportunity to establish fresh governance practices and to benefit from the wealth of best practice research that has been recently conducted. In 2004 the Board of Directors laid a solid foundation for an effective governance regime for CATSA.

CATSA’s Board of Directors is comprised of 11 directors, including the chairperson, appointed by the Governor in Council, on the recommendation of the Minister of Transport. Of these directors, two must be nominees proposed by airport operators and two must be nominees proposed by the airline industry. The Board of Directors is empowered by the *CATSA Act* and governed by Part X of the *Financial Administration Act*. The Board has responsibility for the overall stewardship of the Authority and is accountable to the Minister and the Government of Canada.

The Board’s key functions and responsibilities are to provide strategic direction, financial oversight, corporate oversight and good governance. To execute these responsibilities, the Board currently has three standing committees: an Audit Committee; a Human Resources Committee and, as of April 1, 2004, a Corporate Governance and Nominating Committee. The Board establishes ad hoc committees periodically to manage issues of short duration that do not fall into the purview of any of the standing committees.

In September 2004, the Board reviewed the corporation’s mandate and set out the strategic direction for the Corporation. The Board ensured full and fair reporting to stakeholders on a timely basis throughout its review and approval of the 2003 Annual Report and the 2005 Corporate Plan, Operating and Capital Budgets. A review of the Board’s Committee structure was conducted and resulted in the creation of the Corporate Governance and Nominating Committee in April 2004. The Board played a pivotal role in improving corporate performance by working with management on a framework for reporting on performance measures and objectives while also overseeing the performance of the President and CEO. Board members participated in the Privy Council Office’s governance training and financial literacy for Directors course while the Board executed other key responsibilities through its committees as set out below. The Chair represented CATSA and the Board at conferences and stakeholder meetings to ensure that the Authority communicates effectively with Government, other stakeholders and the public. For example, the Chair and the President and CEO were active in the consultative process of the Treasury Board Crown Corporation Governance Review. In 2004/05, CATSA’s Board of Directors held 12 meetings (6 regularly scheduled meetings, 5 teleconferences and 1 strategic retreat).





Audit Committee:

The Audit Committee meets regularly to provide ongoing rigorous financial oversight of the Corporation. Specifically, in 2004 it conducted timely reviews of CATSA's quarterly financial statements and variance reports, the annual Capital and Operating Budgets, the expenses of the Board of Directors and the year end Financial Statements for recommendation to the Board. The Committee reviewed and recommended to the Board a comprehensive Risk Management Framework and a Corporate Risk Profile. Internal audit plans and reports were reviewed and regular communication with, and guidance to, the internal auditor was maintained. The Committee also received reports and guidance from CATSA's external auditor, the Auditor General of Canada (OAG), whose officials attended every Committee meeting. Preliminary discussions also occurred with the OAG regarding the Special Examination of CATSA. In conjunction with the Governance Committee, the Audit Committee provided direction on Board expenses and clarity on claiming per diems. In 2004, the Audit Committee met six times.

Human Resources Committee:

In 2004, the Human Resources Committee began work with senior management on the development of a Succession Plan, including the assessment of key management. The Committee reviewed and provided guidance on CATSA's pension plan and the Pension Transfer Agreement with the Public Service as well as two corporate reorganizations and several key staffing issues. The Committee monitored employment equity compliance and provided oversight and direction on Occupational Health and Safety. Various Human Resources initiatives, including an employee recognition program and HR policies, were reviewed for recommendation to the Board. The Committee began to work with management on a long-term labour strategy and headquarters' staffing levels. The Committee convened for six meetings.

Corporate Governance and Nominating Committee:

Established in April of 2004, the Corporate Governance and Nominating Committee began by developing Roles and Responsibilities documents to better delineate the roles of the Board of Directors, the Chair, the President and CEO and the Corporate Secretary and to solidify Board-Management relations. Faced with two vacancies and a Chair transition and in order to comply with proposed new appointment procedures, the Committee set out to establish and conduct an open, fair and transparent recruitment process. The Committee assessed the Board competencies and prepared a gap analysis. Profiles of the Board of Directors, the Chair position and Directors were prepared and approved by the Minister of Transport and the Privy Council Office. The Committee worked closely with an executive search firm to attract, interview and select appropriate candidates to recommend to the Board and subsequently to the Minister of Transport. The Committee also held preliminary discussions on Board and Directors' evaluations with a view to beginning a comprehensive evaluation and assessment process in 2005. The Committee met for nine sessions.

Corporate Governance and Nominating Committee
Chair: Clément Joly

Brian Flemming
Darrel Smith
Gordon Cheesbrough

Murray Sigler
Lecia Stewart

Makes recommendations on issues relating to CATSA's corporate governance structure and the development and implementation of rigorous processes in compliance with the Government of Canada's merit-based appointment process.



Full Board of Directors



Human Resources Committee
Chair: Steve Baker

Brian Flemming
Darrel Smith

Mary Martin
Lecia Stewart

Establishes and reviews CATSA's human resources policies, compensation and benefits, and performance and evaluation programs.



Audit Committee
Chair: Murray Sigler

Brian Flemming
Clément Joly
Gordon Cheesbrough

Ronald Clark
Anil Wirasekara

Oversees the Corporation's standards of integrity and behaviour, its reporting of financial information, and its management control practices.





CATSA'S
BOARD OF DIRECTORS

Brian Flemming
Chairman (term completed March 31, 2005)



Murray Sigler
President and CEO, Calgary Chamber
of Commerce, Interim Vice-Chair
September 2004-March 2005



Steve Baker
President and CEO,
London International Airport



Clément Joly,
Partner, Raymond Chabot
Grant Thornton



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



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



Mary Martin
Retired, formerly Vice-President, Canadian
Auto Workers Union, Airline Division



Darrel Smith
Consultant, Safety and
Environmental



Anil Wirasekara
Executive Vice-President and CFO,
MacDonald Dettwiler



Josée Goulet
Chief, Marketing Services,
Bell Canada



Gordon Cheesbrough completed his term on the Board on August 11, 2004 and has moved on to new challenges. Mr. Cheesbrough was a very active member and his contribution to the organization through its start up phase has been appreciated.



On average, Directors served on two Board Committees, with a total of 33 meetings of the Board and its standing Committees held during the fiscal year.

Chart of Directors' Attendance at Board and Committee Meetings April 1, 2004 to March 31, 2005

Director	Board Meetings
Flemming (Chair)	12/12
Baker	8/12
Cheesbrough ¹	4/4
Clark	12/12
Goulet ²	2
Joly	12/12
Martin	11/12
Richard (Vice Chair) ³	1
Sigler ⁴	11/12
Smith	10/12
Stewart	7/12
Wirasekara	8/12

¹ Mr. Cheesbrough completed his term August 11, 2004.

² Ms. Goulet was appointed February 14, 2005.

³ Ms. Richard completed her term April 1, 2004.

⁴ Mr. Sigler was designated by the Board as Interim Vice Chair following Ms. Richard's departure

Board Members' Remuneration

Director Remuneration is set by the Governor in Council.

Director	Board Retainer (A)	Per Diem (B)	Total Remuneration (A + B)	Board Travel and related expenses
Flemming	10,800	63,630	74,430	43,928.97
Baker	5,400	8,385	13,785	4,927.35
Cheesbrough	1,963	3,900	5,863	2,240.39
Clark	5,400	17,160	22,560	13,988.93
Goulet ¹	675	1,365	2,040	834.91
Joly	5,400	20,475	25,875	12,952.73
Martin	5,400	9,750	15,150	21,341.21
Richard	0	420	420	508.36
Sigler	5,400	16,575	21,975	10,510.25
Smith	5,400	17,940	23,340	27,057.13
Stewart	5,400	8,775	14,175	7,436.17
Wirasekara	5,400	12,285	17,685	13,945.02

¹Ms. Goulet's term began February 14, 2005.

CATSA's Founding Chair



Brian Flemming seen here with the Honourable Jean Lapierre, Minister of Transport, in March 2005

Brian Flemming was appointed by the Government of Canada to set up CATSA following the terrorist attacks on September 11, 2001. Together with former Vice Chair, Ghislaine Richard, and a handful of Transport Canada employees on assignment, he set out on the daunting task of creating the corporate structure needed to fulfil this important mandate.

Under his confident leadership, CATSA rapidly progressed through the start-up phase. Brian galvanized a diverse collection of individuals into a strong, functional and motivated Board of Directors. As Chairman, Brian understood the importance of, and championed the implementation of first-rate governance practices. After handing over the reins of the day-to-day management of the corporation in the fall of 2002 to the newly appointed President and CEO, Jacques Duchesneau, he focused his attention on bringing the CATSA brand to the attention of the Canadian security establishment and to the global security community. He helped the Board and senior management foster a functional relationship where Board members and management learned to optimize their respective roles.

While keeping the focus on CATSA's operational development, Brian was also able to bring together leading private and public sector security experts to discuss the nature of the air security risks. He was instrumental in hosting the Living with Risk symposium and delivered a keynote address at the Aviation Security World conference on CATSA's unique approach to integrating people and technology in its training program. For three years, Brian was CATSA's best ambassador, raising our profile, building our credibility and educating leading stakeholders about what we do.

Born in Halifax, Nova Scotia, Brian received a Bachelor of Science degree at Saint Mary's University and a Bachelor of Laws from Dalhousie Law School. He also earned a Master of Laws degree in public international law at University College London and was awarded the prestigious Diploma from The Hague Academy of International Law. A member of the Nova Scotia and Ontario Bars, Brian spent his early working career in the practice of law and as a lecturer. He was made a Queen's Counsel in 1977. He then moved on to a distinguished career in both business and public service, including serving as Assistant Principal Secretary to former Prime Minister Pierre Elliott Trudeau from 1976 to 1979. He was Vice Chairman of the Canada Council for the Arts and a Director of the CBC. Prior to joining CATSA, Brian was Chairman of the Canadian Transportation Act Review Panel, a major five-year review of Canada's transport policies.

Following his retirement from CATSA, Brian will continue to write his popular column for the *Halifax Daily News*, consult on broad transportation issues and continue his advocacy for the arts and other non-profit organizations in his community.

It is with regret that CATSA says goodbye to its founding Chair. We are indebted to him for his dedication and significant contribution in making CATSA the thriving security organization that it is today.

CATSA Welcomes its New Chair



On May 19, 2005 General Maurice Baril was appointed as the new Chair of the Board of Directors. Born in Saint-Albert-de-Warwick, Quebec, Maurice Baril served in the Canadian Forces for 40 years. He joined as a reservist while studying at the University of Ottawa. During his military career, he held command and staff responsibilities across Canada, in Europe, USA, the Middle East and Africa. In the 1990s he was successively commander of the Army Combat Training Centre, military advisor to the Secretary General of the United Nations in New York for three years, Commander of the Army and promoted to the rank of General in 1997 and appointed Canada's Chief of Defence Staff in 1997 until retirement in 2001. He was asked to exercise his leadership skills and professional abilities at the highest level of responsibilities during a particularly challenging time for the Canadian Forces and our country.

He is a graduate of Canadian Army Staff College, US Army Special Forces, Canadian Forces Command and Staff College, and École Supérieure de Guerre in Paris.

Since retirement, General Baril has been special advisor to the Ambassador for Mine Action, Foreign Affairs Canada. In January 2003, he was appointed Inspector General in the Department of Peace Keeping Operations (DPKO) at the United Nations Secretariat. He also sits on several boards of directors. General Baril makes his home in Ottawa, Ontario.

CATSA is honoured to welcome General Baril as Chair.

CATSA's Executive Team




L to R: Ian MacKay, VP Law & Strategy; Kevin McGarr, VP Risk & Quality; Mark Duncan, Executive VP and COO; Jacques Duchesneau, President and CEO; Michael McLaughlin, VP and CFO; and Jacques Grilli, VP Operations.

Organizations preoccupied with the possibility of failure and committed to resilience require leadership that is prepared at all times to make decisions quickly and act with flexibility when unexpected incidents occur. CATSA's senior management team meets on a weekly basis to discuss not only the corporate functions of the organization but also to scrutinize the incident reports from the frontlines. This seemingly tedious preoccupation with frontline operations is intended to analyse every failure and to initiate appropriate remedial actions. CATSA's leadership must also be prepared to adjust periodically the corporation's organizational structure to reflect changing needs.

As part of our ongoing effort to share information within the organization and to create an environment that nurtures innovative thinking and good ideas, CATSA's strategic planning cycle includes annual working retreats at the board, senior management and employee levels. These retreats are forums for sharing successes and challenges over the past year and for providing suggestions to enhance the strategic objectives of the coming year.





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 completed 43 requests (30 of which were pending from the previous fiscal year) and received 23 requests under the *Access to Information Act*. An additional 6 files were consultation requests from other federal departments that may or may not have involved CATSA. In addition, there were 4 new requests under the *Privacy Act* and 13 carried forward from the previous fiscal year.

Corporate Reporting

CATSA's Board of Directors and Executive Team have always acted diligently to uphold the Government of Canada's statutory timelines for the submission of its Annual Report and Corporate Plan, as required by the *Financial Administration Act*. The legislation and governance framework requires our Board of Directors to report through the Minister of Transport to Parliament for the conduct of its affairs.

CATSA's 2004/05 Corporate Plan and budgets, the centrepiece of our accountability regime as proscribed by the Parliament of Canada, was approved by our Board of Directors and submitted to the Minister of Transport on February 3, 2004, as per our statutory requirements. The document was tabled in Parliament in February 2005. CATSA's 2005/06 Corporate Plan and budgets were again submitted to the Minister of Transport on time, within the statutory reporting timelines.

Commitment to the Community

CATSA is proud of the personal commitment its employees make to their communities. Last year, our employees raised over \$51,000 for a number of charities, including Ottawa's Young Woman's Emergency Shelter, Heart & Stroke Foundation, Canadian Cancer Society, Children's Aid Society, Nelson House and United Way. On occasion, this sense of vocation extends beyond Canadian borders, as was the case of Caroline Sauvé, an analyst in CATSA's Legal and Regulatory Affairs Directorate. Caroline participated as a volunteer election monitor in the Ukraine during the run-off presidential elections last December.

Organization



ALIGNING the Organization



“As a key security organization, CATSA must ensure that every resource at our disposal and every activity we undertake are aligned toward meeting our mission and supporting the Government of Canada’s National Security Policy.”

– Mark Duncan, Executive Vice-President and Chief Operating Officer

A primary CATSA objective is to ensure the peace of mind of the travelling public by working with our partners to create one of the leading air transportation security systems in the world.

A key requirement for any successful organization is the need to set objectives and to subsequently measure the progress toward meeting those objectives through a system of performance measurements. This information can then be used to identify deficiencies and introduce improvements, as well as set operational and corporate targets for subsequent years.

During its first year of operations, CATSA focused its efforts on the very ambitious tasks of providing training to all screening officers and deploying and certifying equipment across the country. In the following year, CATSA began identifying and implementing performance measures and introduced a Business Intelligence (BI) system to support better trend analysis and a comprehensive performance measurement framework. The system became fully operational in 2004/05 and now gives CATSA a more effective means of planning, monitoring and controlling operations such as human resources, financial expenditures, incident analysis and the management of contract service providers.

To ensure the corporation’s activities are meeting its mandated responsibilities, CATSA developed a quality management framework that allows managers to identify problems as they arise and to set in motion remedial action as required. In addition, we developed a Corporate Risk Profile and created a Risk Management Team to improve the identification of risk issues and to better anticipate unexpected challenges.

CATSA is also adopting a Balanced Scorecard approach to improve the strategic management of the corporation. The overriding benefit of this approach is the way in which it aligns activities and decision-making with corporate strategy. Most importantly, the addition of the Balanced Scorecard will empower managers to continually monitor whether CATSA is “doing the right things”. Under this approach, CATSA’s business perspectives are organized into five categories: shareholder, customers, financial, strategic actions and people.

On the horizon...

CATSA will prepare for a five-year special examination to be conducted by the Auditor General. At the same time, CATSA will prepare to participate in the five-year review of the CATSA Act, which falls under the authority of the Minister of Transport.

SHAREHOLDER :

As a Crown corporation, CATSA's shareholder is the Government of Canada, as represented by the Minister of Transport, and, by extension, the people of Canada. CATSA's operations across the country play an integral role in supporting the government's National Security Policy by securing critical areas of the air transportation system.

Hand in hand with this security responsibility is a need for accountability to the travelling public and the citizens of Canada. By law, CATSA is required to submit its Corporate Plan and budgets to the Minister of Transport on an annual basis. In addition, our Annual Report and Corporate Plan Summary provide to the public details of our progress and challenges. Together, these documents demonstrate accountability to the Government of Canada and, most importantly, to all Canadians.

CUSTOMERS :

Our customers are the travelling public. As such, we are committed to providing Canadians with one of the most secure air transportation systems in the world, using the resources of a dedicated team, sharing best practices with our security partners and implementing state-of-the-art screening equipment and best security systems available.

CATSA is a leading security organization in Canada: the number of passengers screened each year exceeds the population of Canada. With such a large "customer" base, maintaining customer satisfaction is key.

I think that probably a lot of Canadians have got used to the screening system being operated in a certain way in years past and I remember one day I was going through and all of a sudden it dawned on me this is a very professionally operated system. The people were bright, alert, attentive and professional. Being in the service business, I tend to notice service and it really hit me this is a very well run operation. It gave me a sense of confidence and competence.

*– Ronald W. Robertson, Managing Partner,
Ray & Berndtson/Robertson-Surette Inc.
Frequent Traveller*

Air transport security issues continued to draw the attention of Parliamentarians in 2004/05



CATSA's President and CEO, Jacques Duchesneau, appeared before the House of Commons Standing Committee on Transport in November 2004, following his earlier appearance in March. In December 2004, the Senate Standing Committee on National Security and Defence published an updated Canadian Security Guide Book which raised a number of issues discussed by CATSA during the previous year's committee appearances. CATSA recognizes the important role of these committees in enhancing Canada's security system and will continue to provide testimony and assess the feedback of findings related to its air transport security mandate.



“Building a great organization requires finding the right people and putting them in the right places. At CATSA, we are proud of the fact that we have brought together a workforce of individuals from a wide variety of backgrounds, including government, the aviation industry and law enforcement.”

– Kevin McGarr, Vice-President, Risk and Quality

FINANCIAL :

CATSA relies entirely on Parliamentary appropriations for its funding. As part of our continuous improvement process, we are ever conscious of implementing policies and procedures to improve public accountability. Over the course of the last fiscal year we further developed our Financial Management Accountability Framework to ensure that the appropriate financial controls in place are reviewed and updated as required.

STRATEGIC ACTIONS :

Integrated Security

By strengthening its relationships with other Government of Canada partners, such as Transport Canada and the RCMP, CATSA aims to be in a better position to understand emerging security threats and take timely and appropriate measures. The addition of an Early Warning Threat Assessment System will allow CATSA to track potential threats as they emerge throughout the world.

Innovation and Knowledge

CATSA values the knowledge and expertise of the wider network of security-minded professionals and has begun to collect information from leading academics and research groups on innovations in security as well as information on the latest trends and emerging threats.

Operational Excellence

In cooperation with Transport Canada, CATSA has also been able to achieve appropriate regulatory changes that allow us to optimize screening resources. Through continuous refinement of the regulatory environment within which CATSA operates, we are taking steps to adopt a more risk-based approach to screening that will further align our resources with the Government of Canada's security priorities.



The Government of Canada established CATSA as a Crown corporation requiring it to manage its operations in line with accepted integrated management practices. As such, CATSA's integrated management framework was developed in consideration of an overall security management system (SeMS) which recognizes the distinctiveness of its role as Canada's air transport security authority, while enabling it to remain accountable in the manner of a corporation.

CATSA's SeMS includes:

- › security roles and responsibilities;
- › processes and systems for ensuring compliance with regulatory requirements;
- › utilization of risk management;
- › performance measurement tools; and
- › audits, which are conducted in keeping with CATSA's continuous improvement philosophy.

On the horizon...

As a result of the SeMS, CATSA will be better positioned to measure and report on how security issues are being managed. In the coming years, consistent with the commitment to continuous improvement, CATSA will initiate a process to ensure that the SeMS remains current.



Integrated Risk Management: Understanding CATSA's Security Environment

In 2004, CATSA took steps to build upon its existing risk management policies and practices. A full-time Risk Team was created to ensure that CATSA develops and implements risk management in a more thorough, consistent and integrated manner.

Senior Management and the Audit Committee adopted an enhanced risk management system, and requested the creation of a Corporate Risk Profile consistent with the approved system. We rank all risks in terms of the probability that they will occur and the impact of what happens if they do. Impact assessment relates to potential injury to or death to persons or potential asset losses (dollar value). The intent is to focus security resources on the areas of highest risk. Examples of the application of this process are illustrated below.

CATSA CORPORATE RISK PROFILE

IMPACT	Catastrophic			
	High			
	Medium	HBS, NPS	PBS	
	Low	Policing Programs	RAIC	
		Low	Medium	High

PROBABILITY

The PBS example includes the aggregate risks for the entire program. These could range from ineffective oversight or inadequate training to threat items making their way onto aircraft. Some of these risks will have high impacts and some will have high probabilities of occurring, but overall the profile is medium/medium.

For air security related policing programs, CATSA's risk is primarily associated with program management issues linked to our role in administering funding agreements.

Management Excellence

In addition to commencing the implementation of the SeMS, the implementation of a quality management framework in 2004 was a critical step in enhancing CATSA's performance management. Refined frontline incident reporting and ongoing quality assessments of our screening operations are helping us pinpoint problems and improve our procedures.

In 2004, quality assessments were conducted at Halifax, Edmonton, Montreal and Ottawa airports. In each case, results of the quality assessments are reported to management and an action plan is devised to address any deficiencies identified. CATSA's quality assessment reports are then shared with the senior management committee to bring even minor deficiencies to the attention of the entire organization, to allow for better management of unexpected events and to ensure the overall resiliency of the organization.

On the horizon...

In 2005/06 CATSA intends to build on its internal security systems through regular checks of all CATSA's security measures; developing Disaster Recovery and Business Continuity plans; refining its business processes (asset management, IT upgrades, human resources framework); and simplifying invoice and payment procedures.

PEOPLE :

Over the last three years, CATSA has made progress toward putting the right people in place to complete the transition from start-up mode to a mature corporation. Our recruitment and retention policies embody the organization's personal, professional and organizational core values and reflect the need to attract highly competent personnel. Our commitment to expertise and promotion of cross-functional knowledge among the various divisions of the organization encourage a resilient performance-based culture committed to react quickly and with flexibility when an incident occurs.

In 2004, CATSA completed an employment equity survey and conducted a workforce analysis aimed at improving representation of four designated groups (disabled, women, aboriginal and visible minorities). In addition, CATSA developed an Official Languages policy and staffing guidelines.

To encourage individual excellence among our employees, CATSA implemented a Pride and Recognition program, developed a corporate training plan for employees and began developing a succession plan to develop current leadership talent for key management positions.

Improving Uniform Management



In the fall of 2004, it was reported in the media that “thousands of uniforms” bearing the CATSA logo had been lost or stolen, which potentially posed a serious risk to air transportation security.

We reacted quickly and decisively to correct these misleading reports and dispel security concerns. Within days, CATSA provided the Minister with a full report outlining exactly what uniform items were unaccounted for and, most importantly when it comes to the security of the travelling public, concrete reassurance that the CATSA logo alone cannot be used to gain access to restricted areas of airports.

We also undertook an independent audit of the current uniform program and of existing controls which concluded that the missing items represented a low risk to security. Nevertheless, CATSA has implemented several measures to ensure that the uniform program remains secure, cost-efficient, and effective in communicating our presence to air travellers.

Of note, CATSA has improved its procedures for the collection, destruction, and disposal of used uniform items, including financial penalties imposed for loss or failure to return these items. CATSA is also in the process of deploying a screener identity and time tracking system to ensure that only screening officers whose identity has been verified are permitted to work at or pass through the screening checkpoint.

Continuous Improvement from Constructive Review

In April 2005, the Auditor General's report entitled *National Security in Canada—The 2001 Anti-Terrorism Initiative — Air Transportation Security, Marine Security, and Emergency Preparedness* noted some administrative weaknesses in the way CATSA processed compliance letters from Transport Canada. These letters are used to inform CATSA of non-compliance with regulatory standards.

We have taken the Auditor General's comments very seriously. Measures have been put in place since October 2004 to ensure that we track every compliance letter and implement all actions required to provide effective, continuous security. Our swift response to this matter indicates our resolve to work with other government agencies to ensure the safety of the air travelling public. CATSA welcomes the constructive and independent review provided by the Auditor General as it offers an opportunity to refine our processes. CATSA will work with Transport Canada on any necessary corrective actions in response to all aspects of the report.

PRIDE AND RECOGNITION PROGRAM – EMPLOYEE OF THE YEAR 2004-05



It is with great pleasure that CATSA announces Micheline Côté, Program Specialist, Screening Operations, as winner of the CEO Employee of the Year Award for 2004-2005.

In February 2003, Micheline joined the Screening Operations team at CATSA where she worked with her regional colleagues to build the screening operations organization. Her first major contribution was to develop and publish the CATSA Standard Operating Procedures (SOPs), the ultimate reference tool for screening providers, screening officers, CATSA staff and Transport Canada. SOPs are living documents in that CATSA Screening Operations must always remain vigilant to changing circumstances and seek continuous improvements to the screening process. Micheline has eagerly met this challenge by recognizing opportunities for improvement and identifying appropriate strategies for implementing these changes. For example, through the development and management of several pilot projects, Micheline demonstrated the feasibility of improving the pre-board screening process. These initiatives resulted in regulatory changes from Transport Canada to permit national implementation, and allowed CATSA to realize operational efficiencies without compromising security.

On the horizon...

In responding to human resource needs, CATSA considers security and cost effectiveness in deciding whether to hire its own employees or contract with consultants. CATSA will continue to refine its human resource policy framework to ensure that it is aligned with its strategic objectives. We will continue to review our salary compensation structure to ensure its compliance with pay equity legislation and explore options to support the training and development of its employees. CATSA will identify and designate positions of its staff to conform to its Official Languages Policy and work to provide language assessments and training. We will continue to ensure that all employees have reviewed its Code of Ethics and Conduct which provides employees with the rules of conduct that must be followed regarding conflict of interest, post-employment, harassment, Internet use and disclosure of wrongdoing.

Congratulations Micheline...we are very proud of you!



Results





PERFORMANCE and RESULTS



“Screening officers are the most important component of the security system that we have put in place. We can implement all the state-of-the-art equipment in the world, but the final decision is taken by a human being.”

– Jacques Grilli, Vice-President, Operations

SCREENING PASSENGERS AND THEIR BELONGINGS

Pre-board screening (PBS) checkpoints are where passengers come face-to-face with CATSA screening officers. PBS is the most visible aspect of our operations. Screening officers are trained and certified by CATSA to provide pre-board screening and hold bag screening (HBS) services at designated airports. With the growing use of electronic ticketing, CATSA is often the first or only contact the passenger has with a security official.

In addition to PBS, screening officers use specialized explosives detection equipment to screen passengers’ checked baggage. CATSA’s HBS equipment and screening officers handle almost 60 million pieces of luggage each year.

CATSA’s Public-Private Partnership Model

CATSA Screening Officers are employees of third-party service providers and provide screening services at its 89 designated airports. New contracts were instituted on April 1, 2004. The new contracts reflect CATSA’s ten priorities (outlined in detail in last year’s Annual Report) covering aspects such as security and continuous improvement, and includes a performance payment program.

When, unexpectedly, certain service providers could not fulfil the provisions of the new contracts, CATSA acted promptly to replace them and minimize the impact on customer service while ensuring operational security. CATSA facilitated the transition of operations to interim service providers, then planned, coordinated and re-executed an open bidding process and awarded new contracts to the successful bidders. As the bidding process reflected more stringent requirements, prospective service providers had to demonstrate concretely how they would meet these requirements, a direct result of the lessons learned from the initial selection process. CATSA also facilitated an open and transparent bidding process for smaller, remote airports. Together, these bidding processes resulted in the awarding of 19 multi-year contracts totalling more than \$480 million.

There’s a lot of continuity between check-in and security and getting on the airplane. It’s all part of the overall experience. It’s very important.
– Donald Bell, Executive Vice-President, Customer Service, WestJet

Minimizing Delays at Checkpoints

The math is simple: fewer prohibited items intercepted by screening officers equals shorter wait times and an overall faster experience at PBS checkpoints. The average time to screen a passenger is just over two minutes, which can be significantly increased when screening officers suspect or detect prohibited items in carry-on baggage.

As well, fewer prohibited items brought to airports means increased safety and security for everyone who flies. Prohibited items include such things as explosives, guns, ammunition, knives, pepper spray, and dangerous goods, such as flammable liquids.

Dealing with prohibited items is a two-tiered effort for CATSA. Screening officers are trained to recognize prohibited items quickly and accurately and the travelling public is educated about what not to bring to airports. While the credit for intercepting prohibited items goes to screening officers, CATSA's investment in its leading edge training programs and proactive communications efforts is paying security and efficiency dividends.



On the horizon...

CATSA's focus will be ongoing contract management, with an emphasis on measuring screening performance. We are taking the valuable lessons learned from the implementation of the new screening contracts to improve future service provider selection. We will implement a more stringent accreditation process for companies to become "CATSA-qualified" suppliers. For existing contractors, CATSA can use audit and/or performance measurement tools to better manage and determine whether an accreditation be maintained or upgraded. For potential contractors, CATSA will use the improved accreditation designation to assess a company's ability to meet CATSA's service delivery expectations and place the main focus of the selection process on financial and operational components.

CATSA's Operating Environment

The pressures CATSA faces shape its current and future operating environment. The two main pressures include increasing passenger volumes and changing and emerging threats. While the resurgence of the air travel industry is a positive economic development, CATSA must strive to have sufficient resources in place to provide efficient screening services to the traveling public. CATSA must also remain vigilant about changing and emerging threats to ensure that air travel remains secure.

Optimizing the PBS process:

In December 2004, CATSA assembled a "Screening Optimization Task Force". The mandate of the task force was to review current operations against existing standards, establish criteria for the operational assessment, carry out the assessment, and report on findings. The assessments took place at several of Canada's largest and busiest airports. The work of the task force also included consulting with aviation industry stakeholders, including airport authorities, air carriers, and service providers. The task force reported its findings in January 2005 and made innovative recommendations to reduce costs and improve efficiency without compromising security. Recommendations included installing tables for divesting and re-packing; pursuing further risk-based regulatory changes with Transport Canada; modifying pre-board screening checkpoint lane and equipment configurations (where possible) to increase passenger throughput; and working with service providers to improve the scheduling of screening officers.

Also in December 2004, CATSA partnered with Vancouver International Airport in a pilot project to improve the efficiency of the PBS process. The trial involves issuing plastic bags to passengers at the entrance to the PBS checkpoint and encouraging passengers (both verbally and through signage) to remove all metal objects, such as loose change, and place them in the bags. CATSA expects to improve throughput by reducing the number of alarms passengers generate at the walk-through metal detector. The bags have the added benefit of keeping valuables together, which makes it easier for passengers to reclaim them once they have been cleared to proceed. The trial runs through June 2005.

"The primary change is that screening operations are now managed by one organization nationally and I think that's very important. I think this leads to uniformity of procedures."

– John Kaldeway, President & CEO of Greater Toronto Airport Authority

On the horizon...

CATSA is developing a variety of information and reporting systems to capture and assist in the management of all incident reports from service providers. For example, we will continue to develop a passenger counting system, which will allow CATSA to accurately measure passenger throughput, assist in assessing screening efficiency, and compare the effectiveness of service providers.

Working with Partners

CATSA actively consults with industry partners and stakeholders such as the Air Transport Association of Canada and the Canadian Airports Council to pursue opportunities for collaboration, receive feedback on performance and seek input on screening initiatives in airports. The non-passenger screening program is an example of a successful cooperative effort between CATSA and its stakeholders, particularly the airport authorities, to implement one of CATSA's key security mandates.

In recognition of each airport's unique operating environment, CATSA works with airport authorities and airlines to develop site-specific operating plans related to our security function. CATSA's Operating Plans supplement its Standard Operating Procedures, which are derived from Transport Canada regulatory requirements and prescribe how screening operations are to be performed. CATSA's Operating Plans are integrated with airport emergency manuals to improve coordination and communication. CATSA has also initiated and participated in emergency exercises with airport authorities and proactively explores any opportunities to improve screening efficiency without compromising security.



“CATSA personnel play a huge part in making sure that, not only are the passengers safe on the airplane but their experience in going through security is quick, safe and efficient and very, very seamless.”
— Jim Facette, President and CEO of the Canadian Airports Council

Positive Impact:
Security Communications Centre Update

CATSA's Security Communications Centre, which became operational in 2004, has improved communications between headquarters and the regions and, as a result, improved security screening.

The Security Communications Centre plays an important coordination role by providing one place for incident reporting and response, PBS and HBS equipment failures and repair schedules, and contract administration issues. In line with the Canadian government's National Security Policy, which encourages cooperation between the different security agencies and departments, the Centre also works closely with control centres of both Public Security and Emergency Preparedness Canada and the Department of National Defence.

To further improve the security of PBS checkpoints, the Security Communications Centre began receiving closed-circuit television (CCTV) images from cameras deployed at PBS checkpoints at Canada's 28 major airports. The deployment of CCTV cameras began in the summer of 2004 and is planned for completion early in the 2005/06 fiscal year. CCTV cameras add another layer of security and are designed to help protect the integrity of screening lines and the screening process.

On the horizon...

CATSA plans to further enhance security by installing CCTV cameras at fixed non-passenger screening checkpoints, which are being implemented at Canada's eight largest airports.

Expanding Screening at Two New Airports

At the Minister's direction, Transport Canada added two airports—Mont-Tremblant, Québec and Red Deer, Alberta—to the airport designation regulations. CATSA responded under very tight timelines by quickly establishing contracts for screening services, deploying essential PBS and HBS screening equipment, and training and certifying screening officers. Operations were fully up and running by December 23, 2004.





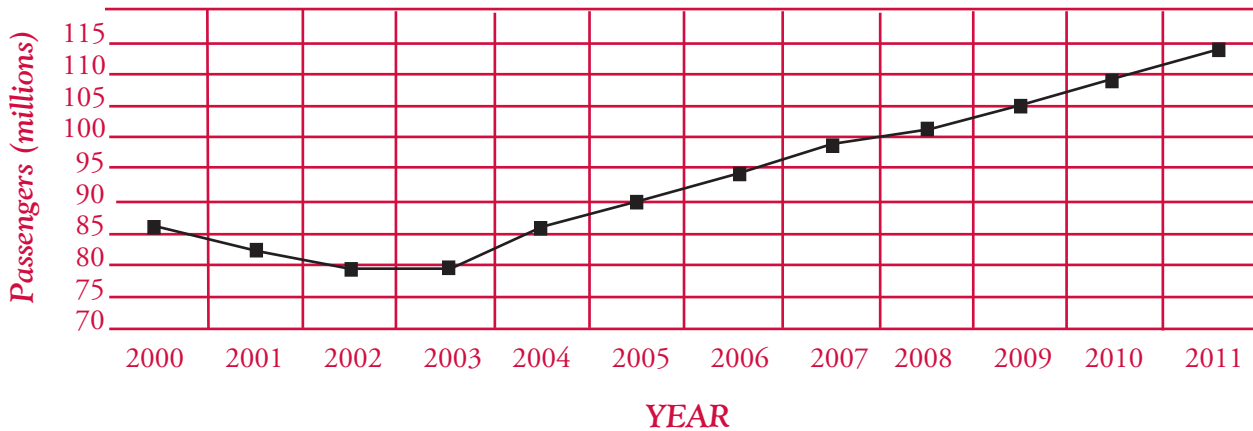
*Meeting Demand:
Adding Capacity to the System*



Canada's 28 major airports process over 96% of total passenger traffic. In 2004/05, CATSA added new screening lines at several of the eight largest airports in response to increased passenger volumes in order to limit wait times to eight minutes or less 90% of the time. (Of Canada's major airports, the eight largest process over 86% of passenger traffic).

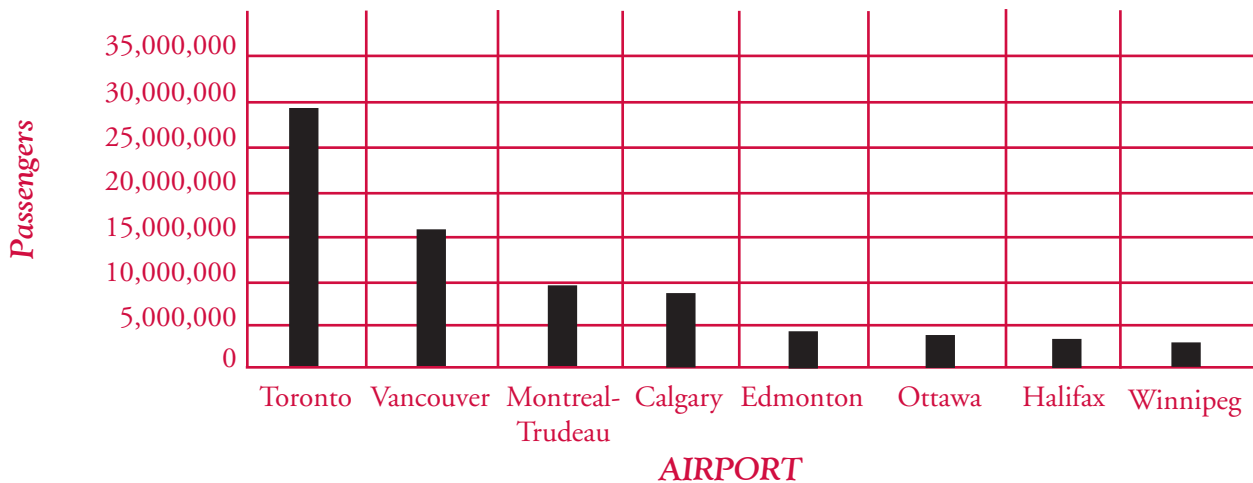
Canada's eight largest airports are Toronto's Pearson International, Vancouver International, Montreal's Pierre Elliott Trudeau International, Calgary International, Edmonton International, Ottawa's Macdonald-Cartier International, Halifax International, and Winnipeg International (screening operations have ended at Montreal's Mirabel airport as commercial passenger operations have ceased).

Forecast of Total Passengers



Note: Total passengers include enplaning and deplaning. CATSA screens enplaning passengers.

Total Actual Enplaned and Deplaned Passengers 2004



Source: Transport Canada



“At CATSA, we believe that our success in meeting our mandate depends on our ability to foster inspired leadership of our managers, to empower employees to take initiative and make routine decisions, and to encourage the free exchange of ideas within our organization at all times.”

– Ian MacKay, Vice-President, Law & Strategy

Implementing Regulatory Changes

Transport Canada sets the regulations with which CATSA must comply. In consultation with Transport Canada, CATSA identified high-priority regulatory changes to enhance security efficiency. As a result, three risk-based regulatory changes to improve security and efficiency at PBS checkpoints were introduced in November 2004. CATSA is actively monitoring the effectiveness of these changes.

Improving the Regulatory Program: Building on CATSA’s Capacity to Anticipate the Unexpected

CATSA strongly believes that all players—Transport Canada, stakeholders and CATSA itself—have a role to play in achieving “Smart Regulations” and conformity with federal Regulatory Policy. Among many aspects of the government’s Smart Regulation initiative and federal Regulatory Policy, the following are of particular interest for CATSA.

CATSA supports regulations that are:

Enabling: effective, but not more complicated than necessary

Responsive: allow for quick action and change, enable innovative opportunities, and keep up with technological developments

Based on risk management: risks are assessed and prioritized in consultation with stakeholders

Results-focused: flexible in how results can be achieved, maximizing cost effectiveness

On the horizon...

CATSA will continue to research and identify procedural alternatives and propose further risk-based approaches to screening. The rationale for moving towards a risk-based approach is to realize operational efficiencies without compromising security; the security of passengers is always paramount.

Pre-board Screening (PBS): Summary of performance

PERFORMANCE CRITERIA	PERFORMANCE MEASUREMENT	PERFORMANCE DATA 2003/04	2004/05
Security effectiveness	Average number of prohibited items (e.g. knives, guns, pepper spray) intercepted per month	73,150 (* Partial data only; figure based on average of nine months of data collection)	61,500

For calendar year 2004, CATSA intercepted over 738,000 prohibited items, which is a decline of almost 20% over 2003. CATSA attributes this decline to the success of its communication and awareness programs, which it developed and delivered in partnership with its stakeholders.

Security effectiveness	Total number of critical incidents	2022	2147
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Critical incidents involve police and include, for example, the discovery of a prohibited weapon, contraband, or an explosive device at PBS checkpoints.

Incident reporting is a regulated requirement and forms a significant part of determining service provider compliance with the provisions of CATSA's Performance Payment Program.

In 2004/05, CATSA changed the reporting requirements for critical incidents, which accounts for the slight increase. Based on this new criterion, the actual number of critical incidents has decreased when compared to 2003/04.

Security effectiveness	Enplaning passenger forecast (source: Transport Canada Aviation Forecasts)	39,450,000	42,706,350
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Enplaning refers to those passengers who will be boarding a flight.

For the 2004 calendar year, passenger volumes increased 8% over 2003.

Overall passenger volumes have risen to pre-9/11 levels, and in 2005 are forecasted to rise above pre-9/11 levels. Further, passenger volumes are predicted to continue to rise by, on average, approximately 4% per year over the next decade. CATSA and its screening service providers rely on passenger forecasts to ensure staffing levels are appropriate.

PERFORMANCE CRITERIA

PERFORMANCE MEASUREMENT

PERFORMANCE DATA

2003/04

2004/05

Operational efficiency

Average passenger throughput per pre-board screening line per half hour during peak periods (Canada's eight largest airports only)

62
(Source: Apr '03 survey)

60
(Source: Aug '04 survey)

53
(Source: Feb '05 survey)

Variances in throughput can be attributed to:

- Survey methodology that was refined in 2004/05 to produce more accurate results
- The results of the Feb '05 survey reflects the fact that winter travellers tend to carry more belongings, which slows down the screening process

CATSA plans to continue with twice-yearly (summer and winter) surveys as they provide valuable feedback about operational efficiency.

Operational efficiency

Average queuing time (Canada's eight largest airports only)

2 minutes and 19 seconds
(Source: Apr '03 survey)

2 minutes and 38 seconds
(Source: Aug '04 survey)

3 minutes and 40 seconds
(Source: Feb '05 survey)

Queuing or wait times fluctuate; during peak periods, passengers may experience longer waits than the average. According to the survey results, CATSA continues to meet its service standard, which is limiting passenger wait time to eight minutes or less 90% of the time.

Compared to other jurisdictions, and especially to many airports in the U.S., CATSA's queuing times are relatively low.

Customer service

Complaints

361 (Q2 data not available)

505

Although in real terms CATSA experienced a slight increase in the number of screening-related complaints it received, when the totals are compared to the forecasted number of enplaning passengers, the number of complaints per million passengers is approximately 10.

CATSA attributes its very low number of complaints relative to the number of passengers it serves to its highly-trained and professional screening officer workforce. It is possible that the number of complaints will rise as the public becomes more familiar with CATSA and its role.

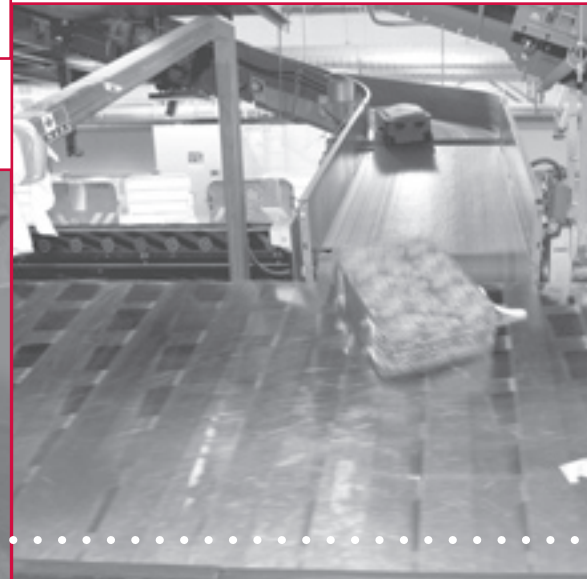
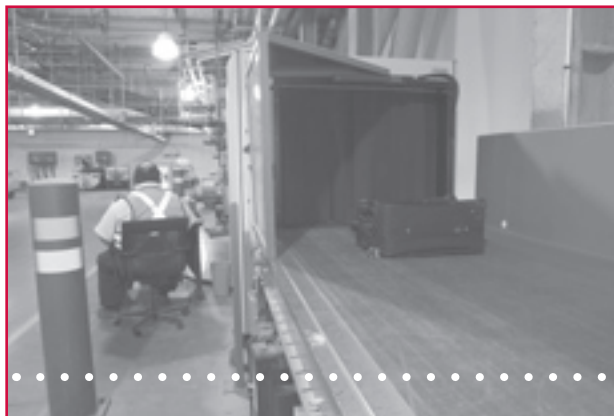
Deploying Equipment

In the 2001 federal budget, CATSA was allocated over \$1 billion to purchase, integrate, and operate advanced explosives detection systems (EDS) for hold bag screening at 89 designated airports across Canada. The airports are responsible for project construction and for installing the systems, and CATSA reimburses them for their approved costs. CATSA has worked diligently to ensure that the money allocated by the Government of Canada for EDS equipment is spent appropriately.

To date, the capital projects represented by these agreements include over 2000 pieces of security equipment. CATSA's security screening equipment includes state-of-the-art X-ray technologies, as well as hand-held and walk-through metal detectors, and explosives trace detection machines.

Auditor General: "Installation of explosives detection systems is going well"

In her report entitled *National Security in Canada—The 2001 Anti-Terrorism Initiative — Air Transportation Security, Marine Security, and Emergency Preparedness* released on April 5, 2005, Auditor General Sheila Fraser expressed satisfaction with CATSA's acquisition and implementation of EDS equipment. The report noted that "project objectives were clearly defined, project implementation reports were given to CATSA's Board of Directors, and there was an information system to track whether projects were on schedule and to track the costs." CATSA is on schedule to complete EDS installation by Transport Canada's regulated date of January 1, 2006.



*Responding to Emerging Threats:
Testing Passenger Documentation for Explosives*

On October 15, 2004, the Minister of Transport and CATSA's President and CEO jointly announced the start of an operational trial of new explosives detection document scanner technology. The pilot project involved the deployment of new document screening equipment to test for traces of explosives on passenger documentation such as boarding passes. This new equipment represents an additional layer of security to address emerging threats, one that has the potential to further enhance aviation security in Canada.

Evolving terrorist tradecraft

On August 24, 2004, two Russian airliners crashed within minutes of each other, killing all 89 people on board. The Russian Federal Security Service determined that both the Volga-Avia Express Tupolev 134 and the Siberia Airlines Tu-154 aircraft crashes were caused by explosives, which went undetected through the screening process through a combination of determined terrorists and corrupt airport officials.

Given tragedies like this one, the Air India bombing in 1985 and the Madrid train bombing last year, CATSA must be constantly vigilant about the threat environment and the ever-changing techniques employed by terrorists. Along with explosives, chemical, biological, radiological and nuclear threats are also of concern. To stay informed about the latest countermeasures and strategies for dealing with these threats, CATSA networks with international security partners and actively participates in aviation security conferences. For example, CATSA officials attended the International Air Transport Association's AVSEC (Aviation Security) conference, which was held in Vancouver in November 2004. As well, CATSA played a leading role in organizing the conference, attendees and agenda of the Annual Invitational Aviation Security Screening Symposium, which took place in February, 2005 in South Africa, to share best practices with representatives from ten other countries.



On the horizon...

As the national deployment plan is completed, CATSA—in keeping with its layered approach to air transport security—will have several contingency measures and reporting systems in place to ensure equipment operates at peak levels. As such, CATSA’s focus will turn to three main areas: system acceptance testing, maintenance and life cycle management.

*System Acceptance Testing:
Ensuring Operational Readiness*



CATSA’s efforts until December 31, 2005 will be concentrated not only on deploying explosives detection system (EDS) equipment at remaining airports, but on ensuring these systems can be up and running on time. Before EDS equipment becomes operational, CATSA conducts a system acceptance test for all HBS systems installed across Canada. The system acceptance process ensures that airport authorities’ implementation and operation of HBS equipment complies with CATSA’s requirements. The process includes a series of audits, tests and performance reports. The final system acceptance process relies on the cooperation of several parties including airport authorities, baggage system manufacturers, EDS manufacturers and CATSA. Only after these systems comply can they be activated. Once a system has been verified (i.e., the testing of the technology) and validated (i.e., the testing of the personnel), CATSA issues a compliance document indicating the HBS system complies with CATSA’s standards requirements.

Negotiating Maintenance Agreements



CATSA also has a public-private partnership agreement for equipment maintenance services. CATSA signed contracts with NAV Canada for the maintenance of its explosives detection system and PBS equipment. CATSA also contributes to airports’ maintenance costs of the baggage handling systems that deliver baggage to CATSA’s equipment for screening.

Life Cycle Management



CATSA has put in place the people, a strategic plan, and asset management systems to ensure its inventory of screening equipment and spare parts is properly maintained and that it can adequately address the acquisition and testing of replacement equipment. CATSA’s asset management systems will be able to provide up-to-date data about the life expectancy of its deployed equipment and its future equipment and parts requirements.

Hold Bag Screening (HBS): Summary of performance

PERFORMANCE CRITERIA	PERFORMANCE MEASUREMENT	PERFORMANCE DATA 2003/04	2004/05
Operational efficiency	Average X-ray equipment availability (% up-time)	N/A	99%

As equipment was deployed and became operational, CATSA began to measure its reliability. CATSA's equipment has proven very reliable. Hold bag screening systems have contingency measures to ensure that security is not negatively impacted by equipment failures.

Non - Passenger Screening (NPS)

NPS implementation began on February 10, 2004 and applies to Canada's 28 major airports. This program focuses on the random selection of airport employees, flight crews, construction personnel and other non-passengers who, along with their possessions, are subjected to screening when entering or already inside restricted areas at airports. Currently, teams of screening officers are deployed to restricted area access points to randomly select and screen non-passengers. When selected by a screening officer a non-passenger must (a) agree to present his/her restricted area identification and (b) agree to be screened in order to enter into or remain inside the restricted area.

The successful implementation of NPS was due in large part to the overwhelming acceptance and support of the program by the airport authority and airline community. Examples of support included collaborating and participating in NPS program promotion, site-specific advisories, as well as employee information and awareness sessions. Because of this support, airport employees have come to view NPS not only as a security enhancement for the travelling public, but also as an enhancement to their workplace security.

On the horizon...

In the 2005/06 fiscal year, CATSA will begin to establish permanent NPS checkpoints at strategic access points at Canada's eight largest airports. These checkpoints will improve security and provide CATSA with the flexibility to implement enhanced screening measures during periods of heightened threats, such as occurred during the start of the war in Iraq or the SARS crisis.

Non-Passenger Screening (NPS): Summary of performance

PERFORMANCE
CRITERIA

PERFORMANCE
MEASUREMENT

PERFORMANCE
DATA
2004/05

Security effectiveness

Total number of intercepted
and removed items

1298

Intercepted items for NPS include both prohibited items and unjustified tools of the trade, which screening officers are also trained to detect.

Operational efficiency

Deployment to largest
airports (planned/actual)

8/8

CATSA implemented NPS at Canada's eight largest airports by the regulated date of May 1, 2004.

Operational efficiency

Deployment to remaining
major airports (planned
actual)

20/20

CATSA implemented NPS at Canada's remaining major airports by the regulated date of December 1, 2004.

Customer service

Complaints

6

CATSA attributes the very low number of complaints relative to the total number of non-passengers screened to the successful training program and awareness campaign, which involved significant assistance from many CATSA stakeholders including airport authorities.

Restricted Area Identification Card

On October 15, 2004, the Minister of Transport and CATSA's President and CEO jointly announced the beginning of the implementation phase of the Restricted Area Identification Card (RAIC). Through the use of biometrics, this card will improve on the restricted area pass (RAP) system currently in place at Canada's major airports and will include 120,000 employees. Biometric technology is used around the world by security and police organizations to authenticate identity and will play an important role in helping to keep Canada's airports and skies safe.

Airport authorities are wholly responsible for the issuance, tracking, and verification of RAICs. CATSA provides the access systems and the technology for airport authorities to enrol employees.



CATSA's RAIC program was profiled in the January/February 2005 edition of *Canadian Security Magazine*. The article highlights the technical complexity of the iris and fingerprint scanning technology, the amount of time required to enrol people, as well as regulatory and privacy issues. The regulatory framework for RAIC will be the first laws enacted in Canada that include a requirement to submit biometrics, which also makes it a complex issue from a legal perspective.

On the horizon...

CATSA continues to deploy equipment to airports on a voluntary basis. Several airports have expressed a willingness to volunteer for a RAIC trial. CATSA is prepared to work with these and other airports that are operationally ready to incorporate RAIC into their access systems.

I think the creation of CATSA has added a number of things. Obviously, on the capital side there is immensely more technology and better machines to help the screening than we had in the past. But also, the improvements in training and standards and in procedures have significantly enhanced the security ability.
– Cliff Mackay, President, Air Transport Association of Canada

Restricted Area Identification Card (RAIC): Summary of performance for the proof-of-concept trials

PERFORMANCE CRITERIA	PERFORMANCE MEASUREMENT	PERFORMANCE DATA 2003/04	2004/05
Operational efficiency	Number of airports with RAIC (planned/actual)	N/A	4/4

RAIC operational trials began in 2004 and involved four of Canada's major airports: Vancouver International, Montreal's Pierre Elliott Trudeau International, Kelowna International, and Charlottetown. A fifth airport, Calgary International, was added late in the spring of 2005. RAIC enrolment was completed at two of the smaller airports that hosted the operational trials. As the RAIC program transitions from operational trials to full deployment, RAIC enrolment and usage will increase.

National Training and Certification Program

The National Training and Certification Program is built on a comprehensive, "continuous improvement" framework that allows CATSA to meet all of its mandated responsibilities. CATSA's investment in its training program produces a highly skilled, professional, and well-informed screening officer workforce that consistently receives positive feedback from both internal and external stakeholders. CATSA provides 64 hours of classroom training time to each new screening officer. CATSA also provides on-the-job training, the amount of which increases as a screening officer progresses. For example, in addition to classroom training hours, a Level 3 screening officer will complete 60 hours of on-the-job training.

Program review

In 2004/05, CATSA undertook a review of its training and certification programs. As a result, CATSA decided to fully integrate Certification processes with its classroom-based training and on-the-job training programs to realize efficiencies and streamline the overall training and certification process. CATSA's Learning and Performance advisors will train, certify and provide performance coaching to all screening officers to ensure they meet performance standards on an ongoing basis.

CATSA also decided to "in-source" the delivery and scheduling portion of its training program, which was formerly contracted out. In-sourcing this function is predicted to result in greater efficiencies for CATSA, to build significant in-house knowledge, and to improve training consistency and quality. To ensure a smooth transition with no disruption of course scheduling or delivery of training, CATSA put the necessary resources in place and notified all service providers of the change, including setting up a temporary call centre to provide further assistance on an as-needed basis.

Job satisfaction

The attrition rate of CATSA's screening officer workforce over the last six months averaged 12.5%. This rate is considered to be well within the norms of turnover rates within the security industry.

CATSA takes pride in having a highly trained and motivated screening workforce. That's why, upon assuming responsibility for pre-board screening, CATSA increased wage levels and more than tripled the previous amount of training. CATSA has and will continue to work closely with its service providers to further reduce attrition rates and maintain a stable workforce.

New Training Technology:

X-Ray Tutor and Threat Image Projection System

CATSA strongly believes in investing in the skills of screening officers. As such, we are introducing two advanced software programs to improve security: X-Ray Tutor and Threat Image Projection System (TIPS), both of which have been very well received by screening officers.

X-Ray Tutor is a training program CATSA adopted to help screening officers improve their ability to identify threat objects in passenger baggage. The software program simulates the experience of using an X-ray machine for baggage screening. Much like a multi-level video game, X-Ray Tutor gathers data from user responses to create a specific training program tailored to each screening officer.

The library of images numbers in the thousands and is constantly updated to include the latest threat items. X-Ray Tutor is currently used as a training tool in major airports in other jurisdictions, including the U.S. and Germany.

TIPS is a software program that superimposes images of threat items (e.g., a gun, knife, improvised explosive device) within the X-ray image of a real carry-on bag during the screening process.

In the fall of 2004, CATSA successfully conducted operational trials of X-Ray Tutor and TIPS. Based on the success of the trials, CATSA confirmed that the deployment of X-Ray Tutor and TIPS will assist in improving threat object detection by screening officers and increase their vigilance while operating X-ray equipment.

On the horizon...

X-Ray Tutor and TIPS will be fully deployed in the remaining airports during the second half of the 2005/06 fiscal year.

Summary of performance

To support the increased staffing requirements for specialized EDS equipment associated with the continued roll-out of the National Deployment Plan, over 2000 advanced training courses were attended in 2004/05, which represents an increase of 71% over 2003/04. And, as in 2003/04, over 1000 screening officers were trained to Level 3 to support the resource needs of the PBS and NPS programs, and to address attrition.

Airport Policing Contribution Program

CATSA maintains funding agreements with Canada's eight largest airports. In 2004, we conducted a review of the current funding allocation and determined that a new funding formula was required to make the program equitable. CATSA completed consultations with the airports about this new funding formula and expects to implement it by the end of the current fiscal year. The funding allocations will be assessed and reviewed annually and each airport will continue to be required to submit to CATSA, on a quarterly basis, independently audited financial reports. CATSA also signed interim agreements with two other eligible airports: London and Kelowna.

CATSA is currently undertaking a formative program evaluation to review the policing costs borne by airport authorities and to assess the nature of police responses to ensure that the program is meeting its stated goals.

Summary of performance

CATSA monitors this program from a funding administration perspective. Transport Canada audits airports for regulatory compliance to measure security effectiveness. In terms of operational efficiency, CATSA conducts financial audits to ensure funding is applied in accordance with the agreements it signs with airport authorities. A formative evaluation is currently ongoing, the results of which will be available in the summer of 2005.

Working with Law Enforcement Agencies

CATSA also participated in the Canadian Airport Police Commanders Meeting in Montreal, in March 2005. The meeting, which included representatives from law enforcement agencies, airlines, and Transport Canada, provided CATSA an opportunity to discuss various issues relating to air transport security roles and responsibilities.

Canadian Air Carrier Protective Program (CACPP)

The RCMP provides Aircraft Protective Officers on board commercial aircraft to protect against an unauthorized person seizing control of a Canadian commercial aircraft. Under the terms of the *CATSA Act*, CATSA makes payments to the RCMP for the provision of this service. CATSA continues to work closely with the RCMP to ensure that the program is administered properly and that it uses resources appropriately.

Summary of performance

The RCMP is responsible for all operational aspects of this program and for ensuring its security effectiveness. CATSA monitors the funding administration of this program and contracts with an independent firm to conduct periodic evaluations.

Communications Programs

CATSA has worked closely with airport authorities, travel agents and other stakeholders to make the travelling public more aware of the importance of air security. The Authority believes its public awareness efforts are getting results. We encourage passengers to visit our website at www.catsa-acsta.gc.ca where they will find useful information about pre-board screening procedures as well as tips for packing carry-on and checked baggage.

“By being better prepared and more informed about what they may and may not pack in their carry-on baggage, passengers are helping to enhance air security and reduce delays at pre-board screening checkpoints,” says CATSA President and CEO, Jacques Duchesneau. “This makes for a more efficient screening process and a more pleasant travelling experience.”

Communications programs: Summary of performance

PERFORMANCE CRITERIA	PERFORMANCE MEASUREMENT	PERFORMANCE DATA 2003/04	PERFORMANCE DATA 2004/05
Operational efficiency	Website visits	316,899	610,547
<p>In March 2005 alone, CATSA had 205,978 website visits (compared to 41,426 in March 2004). The substantial increase in website visits in March can be attributed to CATSA's first on-line advertising campaign (which provided a direct link to CATSA's website) as well as the airing of 30-second vignettes on the Weather Network/Météo Média, Air Canada In-flight TV, travel specialty shows and community cable stations. The advertising efforts of this spring awareness campaign are estimated to have reached a total of 18,790,000 Canadians.</p>			
Operational efficiency	Number of awareness products distributed	22,963 (partial data only)	607,918
<p>Awareness products include, for example, pamphlets, and bookmarks, which describe important packing tips and CATSA contact information.</p> <p>In 2003/04, CATSA began distributing information pamphlets through the 1-800-O Canada service. In 2004/05, CATSA continued supplying pamphlets to this service and expanded its distribution of information products across Canada to include hotels, airlines (for example, 500,000 pamphlets were distributed to Air Transat), and airports, as well as bookstores and libraries.</p>			
Customer service	Number of public inquiries	1536 (Q2 data missing)	3246
<p>CATSA attributes the overall increase in public inquiries to the general public's growing awareness of the organization through the launch of several new forms of communication campaigns to advertise CATSA's programs to the travelling public. For example, the web-based advertisements used during the spring awareness campaign earned CATSA positive comments from the public. As proof of the reach of these advertisements, when comparing the number of inquiries from March 2004 (349) to March 2005 (552), CATSA saw a 58% increase.</p>			
Customer service	Results of public opinion survey	N/A	Two surveys conducted at 16 airports (total sample size: 2,830)
<p>Winter 2004 survey results: Overall experience with security screening, 93% satisfied; amount of time taken to be screened, 93% satisfied; level of screening officer professionalism, 91% satisfied; level of courtesy/respect with which screening officers treated passengers, 91% satisfied.</p> <p>Spring 2005 survey results: Overall experience with security screening, 94% satisfied; amount of time taken to be screened, 91% satisfied; level of screening officer professionalism, 91% satisfied; level of courtesy/respect with which screening officers treated passengers, 90% satisfied.</p>			

Analysis



Management Discussion and Analysis



“As a security organization we measure our overall success by how effective we are at detecting and deterring threats. As a publicly funded Crown corporation, we are also concerned with how efficient we are in achieving that effectiveness.”

– Michael J. McLaughlin, CMA, FCMA, Vice-President and Chief Financial Officer

The 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 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. All numbers presented in the Management Discussion and Analysis are in thousands of dollars.

Key Financial Data

	Fiscal 2004-2005	Fiscal 2003-2004	Budget 2004-2005
Total Recognized Appropriations	489,250	351,415	-
Operating Funding	268,251	234,505	-
Capital Funding	220,999	116,910	-
Cash	158,804	44,241	-
Accounts Receivable	19,922	61,698	-
Inventory	15,127	9,273	-
Capital Assets (net of amortization)	428,572	239,576	-
EDS capital acquisitions	207,804	112,899	215,670
RAIC capital acquisitions	6,151	1,864	1,055
NPS capital acquisitions	578	3,977	2,903
Other capital acquisitions	3,358	11,359	2,405
Accounts Payable and Accrued Liabilities	171,238	100,069	-
Deferred Capital Funding	431,432	239,097	-
Pre-board screening	164,097	156,872	163,663
Air security related policing programs and hold bag screening	85,091	55,465	128,155
Corporate services	31,452	25,419	32,186
Non-passenger screening	12,164	1,207	13,295
Restricted area identification card	2,080	808	9,469



Funding

CATSA's funding is derived primarily through appropriations from the Consolidated Revenue Fund, with a small portion from interest revenue. In late March of 2004, Parliament approved an appropriation of \$503,675 for the 2005 fiscal year. Through prudent use of resources, the unused portion of Parliamentary appropriations for 2005 is \$14,425 versus \$32,285 for 2004. Total appropriations for the year amounted to \$489,250, which is split between capital of \$220,999 and operating of \$268,251.

Financial Position

Cash

Cash balances at March 31, 2005 are \$158,804 versus \$44,241 at the same time in the previous year. The increase of \$114,563 is in line with the increased spending in 2004-05. Payments due for EDS equipment acquisitions, integration work in process and Airport Policing Programs as of March 31, 2005 amount to \$125,832 as we are at the peak of the National Deployment Plan. Payments to screening providers also require cash disbursements in the amount of \$24,199 mostly in April of 2005 for work done prior to March 31.

Accounts Receivable

Accounts Receivable balance is \$19,922 at year end. \$19,856 is for recoverable Goods and Services and Provincial Sales Tax. The decrease over last year of \$41,776 is due to our closer attention to the cash flow requirements related to EDS deployment and screening services expenditures as we came closer to year end. As a result we drew down from the approved appropriations sufficient funds to disburse in April the expenditures from March 2005.

Inventory

Inventory, which includes EDS spare parts and Restricted Area Identification Cards (RAIC) increased from \$9,273 to \$15,127. This increase is due to the addition of spare parts as more EDS equipment is acquired and deployed. EDS spare parts are located in strategic locations across Canada and serve to ensure minimal downtime of related EDS equipment. The RAIC in inventory is anticipated to be distributed in the course of the next fiscal year.

Capital Assets

Capital Assets with a net book value of \$428,572 are shown at March 31, 2005. This compares to \$239,576 for the previous year. The \$428,572 is comprised of assets with a cost of \$472,767 netted against accumulated amortization to date of \$44,195. Current year acquisitions amount to \$217,891 and are composed of \$207,804 for EDS equipment, \$6,729 on RAIC and NPS assets, and \$3,358 spent on other capital assets. Disbursements related to capital assets amount to \$214,700.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities balance rose from \$100,069 in fiscal 2004 to \$171,238 in fiscal 2005. 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. \$125,832 (74%) of the total accounts payable and accrued liabilities relates to EDS equipment, integration costs and Airport Policing Programs. \$24,199 (14%) relates to screening services payable.

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 primarily offsets the unamortized value of the capital assets on the Balance Sheet.

R e s u l t s o f O p e r a t i o n s

Pre-board Screening

Pre-board screening expenses rose from \$156,872 in fiscal 2004 to \$164,079 in fiscal 2005. The majority of the difference between 2004 and 2005 relates to anticipated contractual increases of payments to screening providers for wage increases and increases to the number of screening lines deployed at airports. The 2005 expense is in line with the budget of \$163,663.

Air Security Related Policing Programs and Hold Bag Screening

Air security related policing programs and hold bag screening expenses for fiscal 2005 amounted to \$85,091 compared to \$55,465 in the previous fiscal year. Budgeted costs for 2005 are \$128,155. The budget to actual variance is mainly due to the amortization of EDS equipment as the 2005 budget did not reflect the change in CATSA's accounting policy related to amortization of capital assets that occurred in March 2004. In addition, the Air Security Related Policing Programs have yet to take full advantage of the contribution money available to them. Costs included in this category include contribution payments to certain Airport Authorities to partially offset the costs of aviation security-related policing and the Canadian Air Carrier Protection Program, which places RCMP officers on flights.

Corporate Services

Corporate services expenses of \$31,452 are recorded on the statement of operations for the year ended March 31, 2005. The comparative figure for the year ended March 31, 2004 is \$25,419. Actual expenses for 2005 are in line with the budget of \$32,186. 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 information technology, human resources, strategy, planning and accounting operations services and other activities including public awareness, legal as well as procurement and contracting. In the third year of operation CATSA is reaching a steady state in corporate management. As there was no infrastructure when CATSA was created, all of the required systems had to be developed and implemented. In addition, CATSA has experienced increased pressure for information related to its operations from Parliamentarians and central agencies. In order to meet these demands additional people and systems have been acquired and deployed.

Non-Passenger Screening and Restricted Area Identification Card

Non-passenger screening expenses for the year amount to \$12,164 compared to \$1,207 for the previous year and a 2005 budget of \$13,295. In 2005 the Non-passenger screening program was implemented in 29 airports. Restricted area identification card expenses in fiscal 2005 were \$2,080 compared to \$808 for fiscal 2004 with a 2005 budget of \$9,469. The launch of the program was delayed awaiting the required regulations. RAIC deployment costs of \$5,200 were re-classified as capital expenditures.

Net surplus for the year

Net surplus for the year was \$2,871 compared to \$6,679 in the previous year.



Canadian Air Transport Security Authority

Management's Responsibility Statement

For the year ended March 31, 2005

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 controls 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

June 29, 2005

Michael J. McLaughlin, CMA, FCMA
Vice President and Chief Financial Officer



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, 2005 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 misstatement. 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, 2005 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 the method of accounting for asset retirement obligations as explained in Note 3 b) 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, FCA
Auditor General of Canada

Ottawa, Canada
June 29, 2005

 **Canadian Air Transport Security Authority**
Balance Sheet
As at March 31
(Thousands of dollars)

	2005	2004
Assets		Restated (note 3)
Current		
Cash	\$ 158,804	\$ 44,241
Amounts receivable (note 5a)	19,922	61,698
Inventory	15,127	9,273
Prepaid expenses	3,762	1,091
Deposits on purchase of capital assets (note 6)	272	2,521
	197,887	118,824
Capital assets (note 6)	428,572	239,576
	\$ 626,459	\$ 358,400
Liabilities and Equity		
Current		
Accounts payable and accrued liabilities (note 5b)	\$ 171,238	\$ 100,069
Employee future benefits (note 7)	1,189	523
Asset retirement obligations (note 8)	4,415	3,397
Deferred capital funding (note 9)	431,432	239,097
	608,274	343,086
Government of Canada Equity		
Equity	18,185	15,314
	\$ 626,459	\$ 358,400

Commitments (note 12) and contingent liabilities (note 15)

Approved by the Board of Directors



Murray Sigler
Director

Approved by Management



Michael J. McLaughlin, CMA, FCMA
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)

	2005	2004
		Restated (note 3)
Expenses		
Pre-board screening (note 10)	\$ 164,097	\$ 156,872
Air security related policing programs and hold bag screening	85,091	55,465
Corporate services	31,452	25,419
Non-passenger screening	12,164	1,207
Restricted area identification card	2,080	808
	<u>294,884</u>	<u>239,771</u>
Revenues		
Interest revenue	1,026	1,171
Foreign exchange (loss) gain	(186)	782
	<u>294,044</u>	<u>237,818</u>
Net operating loss before government funding		
Government funding		
Parliamentary appropriations for operating expenses (note 4)	268,251	234,505
Amortization of deferred capital funding (note 9)	28,664	9,992
	<u>296,915</u>	<u>244,497</u>
Net surplus for the year	<u>2,871</u>	<u>6,679</u>
Equity, beginning of year, previously stated	15,314	8,791
Change in accounting policy (note 3c)	-	(156)
Equity, beginning of year, restated (note 3c)	<u>15,314</u>	<u>8,635</u>
Equity, end of year	<u>\$ 18,185</u>	<u>\$ 15,314</u>

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)

	2005	2004
Cash flows from (used in)		Restated (note 3)
Operating activities		
Net surplus for the year	\$ 2,871	\$ 6,679
Items not affecting cash:		
Amortization of capital assets (note 6)	28,895	10,175
Accretion expense (note 8)	76	58
Amortization of deferred capital funding (note 9)	(28,664)	(9,992)
Employee future benefits	666	358
Net change in non-cash working capital balances (note 14)	104,420	18,477
	108,264	25,755
Financing activities		
Parliamentary appropriations for capital funding (note 4)	220,999	116,910
	220,999	116,910
Investing activities		
Acquisition of capital assets	(214,700)	(130,099)
	(214,700)	(130,099)
Net cash inflow	114,563	12,566
Cash, beginning of year	44,241	31,675
Cash, end of year	\$ 158,804	\$ 44,241

Supplementary cash flow information – Note 14

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

Canadian Air Transport Security Authority

Notes to the Financial Statements

March 31, 2005

(Thousands of dollars)

1 Authority, objectives, 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. CATSA is a Crown corporation listed under Part I, Schedule III of the *Financial Administration Act* and is an agent of Her Majesty in right of Canada.

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 six major areas:

1. Pre-Board Screening of Passengers and their carry-on baggage;
2. Hold Bag Screening;
3. Airport Policing Contributions Program;
4. Non-Passenger Screening at major airports;
5. Restricted Area Identification Card for major Canadian airports;
6. Canadian Air Carrier Protective Program.

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*.

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, the assumptions underlying the asset retirement obligations 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 equipment maintenance and the restricted area identification cards. Inventory 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	5 - 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

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.

Canadian Air Transport Security Authority

Notes to the Financial Statements

March 31, 2005

(Thousands of dollars)

(d) Asset retirement obligations

Asset retirement obligations are recognized at fair value in the period they are incurred. The asset retirement cost is capitalized as part of the asset's carrying amount.

The liability for the asset retirement obligations is reviewed annually to consider changes resulting from the passage of time and revisions to either the timing or the amount of the initial estimate of undiscounted cash flows.

Changes resulting from the passage of time are recognized as an accretion expense while changes resulting from the timing or the amount of the initial estimate of undiscounted cash flows are recognized in the related asset retirement costs capitalized as part of the carrying amount of capital assets.

The asset retirement cost capitalized as part of the carrying amount of capital assets is amortized over the related asset's estimated useful life.

(e) 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 cost 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 cost 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 average remaining service period 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 fair value. Amortization of past incurred costs such as the cost of plan amendments is recorded on a straight line basis over the average remaining service period of active employees at the date of amendment, which has been determined to be 18 years (2004 – 19 years) for the RPP, 10 years (2004 – 14 years) for the SPP and 12 years (2004 – 12 years) for the other benefit plans. The cumulative actuarial gains (losses) are amortized over the average remaining service period of active employees to the extent it exceeds 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year.

The latest valuation was completed by an independent actuary as at December 31, 2004. The measurement date used to determine the plan assets and the accrued benefit obligation is December 31, 2004 and the next valuation is expected to be performed as at December 31, 2006.

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

(f) 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.

(g) 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 year.

(h) 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 the Financial Statements

March 31, 2005

(Thousands of dollars)

3(a) Correction of error

Inventory of spare parts

CATSA identified an amount of \$1,579 of spare parts inventory that were expensed in the year ended March 31, 2004. CATSA has opted to correct the error and consequently to restate the comparative financial statements.

3(b) Change in Accounting Policy

Asset Retirement Obligation

Effective April 1, 2004, CATSA adopted the new Canadian Institute of Chartered Accountants (CICA) accounting standard relating to asset retirement obligations. Under this new standard, asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The asset retirement cost is capitalized as part of the capital asset's carrying amount and amortized over the capital asset's useful life. In accordance with Handbook Section 3110, the effect of initially applying Section 3110 has been treated as a change in accounting policy and accordingly, the financial statements for the year ended March 31, 2004 presented for comparative purposes have been restated retroactively.

The effect of the change in accounting policy is an increase in capital assets of an amount of \$942, an increase in asset retirement obligations of \$1,018 and an increase in net operating loss before government funding and net surplus for the year of \$307.

3(c) Reconciliation of the Financial Statements for the fiscal year ending March 31, 2004

As a result of the retroactive changes related to the correction of error and the change in accounting policy, the financial statements for the year ended March 31, 2004 have been restated as follows:

	Previously stated	Change in accounting policy	Correction of error	Restated
Balance Sheet				
Inventory	7,694	-	1,579	9,273
Capital assets	236,576	3,000	-	239,576
Asset retirement obligations	-	3,397	-	3,397
Equity, end of year	14,132	(397)	1,579	15,314
Statement of Operations and Equity				
Pre-board screening	158,284	167	(1,579)	156,872
Air security related policing programs and hold bag screening	55,435	30	-	55,465
Corporate services	25,375	44	-	25,419
Total expenses	241,109	241	(1,579)	239,771
Net operating loss before government funding	239,156	241	(1,579)	237,818
Net surplus for the year	5,341	(241)	1,579	6,679
Equity, beginning of year	8,791	(156)	-	8,635
Equity, end of year	14,132	(397)	1,579	15,314



Canadian Air Transport Security Authority

Notes to the Financial Statements

March 31, 2005

(Thousands of dollars)

3(c) Reconciliation of the Financial Statements for the fiscal year ending March 31, 2004 (continued)

	Previously stated	Change in accounting policy	Correction of error	Restated
Statement of Cash Flows				
Net surplus for the year	5,341	(241)	1,579	6,679
Amortization	9,992	183	-	10,175
Accretion Expense	-	58	-	58
Net change in non-cash working capital balances (note 14)	20,056	-	(1,579)	18,477
Notes to Financial Statements				
Net book value (note 6)	236,576	3,000	-	239,576

4 Parliamentary appropriations

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

	2005	2004
Parliamentary appropriation approved	\$ 503,675	\$ 459,676
Re-profiled amount approved for subsequent years as per 2003-2004 Corporate Plan	-	24,521
Re-profiled amounts approved for subsequent years	-	(100,497)
Unused portion of Parliamentary appropriation	(14,425)	(32,285)
Total recognized appropriations	\$ 489,250	\$ 351,415
Appropriations were recognized as follows:		
Operating funding	\$ 268,251	\$ 234,505
Capital funding (note 9)	220,999	116,910
Total recognized appropriations	\$ 489,250	\$ 351,415

Canadian Air Transport Security Authority

Notes to the Financial Statements

March 31, 2005

(Thousands of dollars)

5(a) Amounts receivable

Amounts receivable are comprised of:

	2005	2004
Parliamentary appropriations	\$ -	\$ 51,513
Goods and Services and Provincial Sales Taxes recoverable	19,856	8,530
Other	66	1,655
	\$ 19,922	\$ 61,698

5(b) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of:

	2005	2004
Equipment implementation and airport policing programs	\$ 125,832	\$ 58,078
Screening operations	24,199	20,307
Other	21,207	21,684
	\$ 171,238	\$ 100,069

CATSA is currently reviewing its position related to retail sales tax and is in discussions with tax authorities. Based on current discussions, management assessed that there is a tax liability. Other includes management's best assessment of such liability.

6 Capital assets

	Cost	Accumulated Amortization	Net book value 2005	Net book value 2004 (Restated–Note 3)
Pre-board screening equipment	\$ 50,243	\$ 16,450	\$ 33,793	\$ 34,175
Hold bag screening equipment	233,845	15,127	218,718	125,587
Non-passenger screening equipment	4,256	566	3,690	3,976
Restricted area identification card equipment	8,017	1,420	6,597	1,777
Computers, software and electronic equipment	16,507	7,458	9,049	11,796
Office furniture and equipment	3,047	1,158	1,889	2,228
Leasehold improvements	8,576	2,016	6,560	7,444
Work in progress	148,276	-	148,276	52,593
	\$ 472,767	\$ 44,195	\$ 428,572	\$ 239,576

As at March 31, 2005, deposits of \$272 (2004 - \$2,521) were made towards the purchase of capital assets and have been included on the balance sheet. The current year amortization amounts to \$28,895 (2004 - \$10,175 (restated)).

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 and are indexed to the rate of inflation. 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:

The fair values of plan assets at the measurement date were \$1,122 for the SPP and \$10,800 for the RPP. The fair values of the accrued benefit obligation at the measurement date were \$647 for the SPP and \$14,142 for the RPP.

	Pension benefit plans		Other benefit plans	
	2005	2004	2005	2004
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	\$ 7,121	\$ 5,283	\$ -	\$ -
CATSA contributions	2,201	802	-	-
Plan participants' contributions	686	451	-	-
Benefit payment and transfers	2,408	156	-	-
Actual return on plan assets	(494)	429	-	-
Fair value of plan assets at end of year	<u>\$ 11,922</u>	<u>\$ 7,121</u>	<u>\$ -</u>	<u>\$ -</u>
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	\$ 9,336	\$ 6,639	\$ 1,168	\$ 538
Plan participants' contributions	686	451	-	-
Current service cost	1,847	1,148	414	258
Past service cost	-	-	-	-
Interest cost	687	521	103	56
Benefit payment and transfers	2,408	156	-	-
Actuarial (gain) loss	(175)	421	134	316
Accrued benefit obligation at end of year	<u>\$ 14,789</u>	<u>\$ 9,336</u>	<u>\$ 1,819</u>	<u>\$ 1,168</u>
Reconciliation with Funded Position				
Unfunded liabilities	(\$ 2,867)	(\$ 2,215)	(\$ 1,819)	(\$ 1,168)
4 th quarter contribution adjustment	334	600	-	-
Unamortized past service cost	718	762	358	373
Unamortized net actuarial loss	1,594	731	493	394
Accrued benefit liability at end of year	<u>(\$ 221)</u>	<u>(\$ 122)</u>	<u>(\$ 968)</u>	<u>(\$ 401)</u>

Canadian Air Transport Security Authority

Notes to the Financial Statements

March 31, 2005

(Thousands of dollars)

7 Employee future benefits (continued)

Plan assets are held by Standard Life. Based on the fair value of the plan assets at December 31, 2004, the assets of the RPP were composed of 66% in equity, 34% in bonds, and 0% in short-term securities and cash, (December 31, 2003 – 65% in equity, 35% in bonds, and 0% in short-term securities and cash). Based on the fair value of the plan assets at December 31, 2004, the assets of the SPP were composed of 51% in equity, 0% in bonds, and 49% in the CRA refundable tax account (December 31, 2003 – there were no assets in the plan).

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 (2004 - 11% for drugs and 9% for hospital grading down to 5% over 10 years), and 4.5% for dental (2004 - 4%). The assumed health care cost trend rate for the next year is 9.6% grading down to 4.9% over 10 years (2004 – 9.6% 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 \$108 and \$327 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 \$81 and \$252 respectively for post-retirement benefits.

Since CATSA made contributions to the pension plans 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	
	2005	2004	2005	2004
Net benefit cost incurred in the period				
Current service cost	\$ 1,847	\$ 1,148	\$ 414	\$ 258
Interest cost	687	521	103	56
Actuarial (gain) loss	(175)	421	134	316
Actual return on plan assets	494	(429)	-	-
Net benefit cost incurred in the period	<u>\$ 2,853</u>	<u>\$ 1,661</u>	<u>\$ 651</u>	<u>\$ 630</u>
Net benefit cost recognized in the period				
Current service cost	\$ 1,847	\$ 1,148	\$ 414	\$ 258
Interest cost	687	521	103	56
Expected return on plan assets	(552)	(390)	-	-
Amortization of past service cost	43	43	37	37
Amortization of net actuarial loss	8	-	13	-
Net benefit cost recognized in the period	<u>\$ 2,033</u>	<u>\$ 1,322</u>	<u>\$ 567</u>	<u>\$ 351</u>

Total cash payments for employee future benefits for 2005, consisting of cash contributed by CATSA to its pension plans was \$2,201 (2004 - \$802).

7 Employee future benefits (continued)

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

	Pension benefit plans		Other benefit plans	
	2005	2004	2005	2004
Expected rate of return on plan assets	6.75%	6.75%	N/A	N/A
Discount rate benefit cost	6.50%	6.50%	6.50%	6.50%
Discount rate accrued benefit obligation	6.25%	6.50%	6.25%	6.50%
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 assets and benefit obligations to CATSA's pension plan as a Reciprocal Transfer Agreement is in place, or to leave them with the Public Service Pension 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 past service cost).

Canadian Air Transport Security Authority

Notes to the Financial Statements

March 31, 2005

(Thousands of dollars)

8 Asset retirement obligations

The Authority has identified asset retirement obligations associated with certain screening equipment and lease agreements. These obligations are expected to be settled between 2009 and 2012.

The estimated liability is based on estimated asset useful lives, external estimates as to the cost to retire these assets in the future and regulatory requirements. The total undiscounted amount of the estimated cash flows required to settle the obligations is \$5,076. The liability is a discounted liability using a credit-adjusted risk-free rate of 4.44%.

A reconciliation of the asset retirement obligation liability for the year ended March 31, 2005 is as follows:

	2005	2004
Balance, beginning of year	\$ 3,397	\$ 2,498
Liabilities incurred	942	841
Accretion expense	76	58
Balance, end of year	<u>\$ 4,415</u>	<u>\$ 3,397</u>

9 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.

	2005	2004
Deferred capital funding, beginning of year	\$ 239,097	\$ 132,179
Parliamentary appropriations to finance the acquisition of capital assets	220,999	116,910
Amortization of deferred capital funding	(28,664)	(9,992)
Deferred capital funding, end of year	<u>\$ 431,432</u>	<u>\$ 239,097</u>

10 Pre-board screening expenses

In the current year, CATSA recorded money recovered from suppliers resulting from billing adjustments. As the money received will be remitted to the Consolidated Revenue Fund, the impact on the net loss before government funding is nil.

11 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.

12 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
2006	\$ 3,335
2007	3,096
2008	2,925
2009	2,741
2010	2,629
2011 to 2013	7,010
	<u>\$ 21,736</u>

Other Contractual obligations

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

	Year ending March 31
2006	\$ 314,415
2007	171,725
2008	5,924
	<u>\$ 492,064</u>

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

Canadian Air Transport Security Authority

Notes to the Financial Statements

March 31, 2005

(Thousands of dollars)

13 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:

- (a) Royal Canadian Mounted Police (RCMP). For reasons disclosed in note 2(h), expenses relating to air security related policing programs are not disclosed in this note.
- (b) Consulting and Audit Canada (CAC). Expenses during the year amounted to \$389, with no outstanding balance included in accounts payable and accrued liabilities.
- (c) Public Works and Government Services Canada (PWGSC). Expenses during the year amounted to \$2,125, with \$555 as an outstanding balance included in accounts payable and accrued liabilities.
- (d) Translation Bureau. Expenses for the year amounted to \$295, with \$59 as an outstanding balance included in accounts payable and accrued liabilities.
- (e) Transport Canada. Expenses for the year amounted to \$2,244, with \$2,174 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. CATSA cannot determine the cost of these services. Accordingly, the value of these services is not recorded in the financial statements.

14 Net change in non-cash working capital balances and supplementary cash flow information

	2005	2004
Accounts receivable	\$ 41,776	Restated (note 3) (\$ 16,261)
Inventory	(5,854)	(4,875)
Prepaid expenses	(2,671)	(888)
Accounts payable and accrued liabilities	71,169	40,501
	\$ 104,420	\$ 18,477

Interest revenue recognized and received for the year ended March 31, 2005 amounted to \$1,026 (2004 - \$1,171).

15 Contingent Liabilities

In the normal course of its operations, CATSA receives claims requesting monetary compensation from various parties. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in CATSA's financial statements.

For the year ended March 31, 2005, there are various outstanding legal actions involving CATSA. CATSA has recorded its best assessment of the various outstanding legal actions in its financial statements.