



Canadian Air Transport  
Security Authority

Administration canadienne  
de la sûreté du transport aérien

# Working **Better** Together



ANNUAL REPORT 2011



Canada



**CATSA 2011 ANNUAL REPORT**

Working **Better Together**



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*Left to right: Suzanne, Screening Officer; Adriana, WestJet Representative; Denise, Air Canada Representative; and Arvin, Screening Officer.*



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# Glossary

- ASSA** Airport Screening Services Agreement: the agreement that governs CATSA's airport screening services with a designated screening contractor
- Canada's eight busiest airports** In alphabetical order: Calgary, Edmonton, Halifax (Stanfield International), Montréal (Pierre Elliott Trudeau International), Ottawa (Macdonald-Cartier International), Toronto (Lester B. Pearson International), Vancouver and Winnipeg (James Armstrong Richardson International)
- Canada's 28 major airports** Includes the "busiest airports" above, as well as (in alphabetical order): Charlottetown, Fredericton, Gander, Iqaluit, Kelowna, London, Moncton, Prince George, Quebec City, Regina, Saint John, St. John's, Saskatoon, Sudbury, Toronto (City Centre), Thunder Bay, Victoria, Whitehorse, Windsor and Yellowknife
- CCTV** Closed-Circuit Television System
- EDS** Explosives Detection System: the specialized equipment used to screen passengers' checked baggage
- HBS** Hold-Baggage Screening: the screening of checked baggage using explosives detection equipment
- NPS** Non-Passenger Screening: the screening of non-passengers accessing restricted areas of airports. Non-passengers can include flight crews, refuellers, caterers, aircraft groomers, maintenance and construction personnel, baggage handlers, vendors and concession staff
- PBS** Pre-Board Screening: the screening of passengers, their belongings and carry-on baggage
- RAIC** Restricted Area Identity Card: an identification card with iris and fingerprint biometric components used by non-passengers to access the restricted areas of Canada's major airports
- RFP** Request for Proposals

# CATSA at a Glance

Over **62,000,000** pieces  
of baggage screened

Over **51,000,000**  
passengers screened

Over **6,800** Screening Officers  
across Canada

Over **5,500** Screening Officers  
re-certified

**1,500** newly hired Screening Officers  
trained and certified

Over **500** employees  
across Canada

**106** checkpoints

**303** screening lanes

**89** airports across Canada



*Central Hall at the Edmonton International Airport.*

## AIRPORT AT A GLANCE

### Edmonton International Airport

Each year, CATSA's Annual Report features photographs from one of Canada's 89 designated airports.

This year's photographs highlight CATSA and our partners at Edmonton International Airport.

One of the fastest growing major Canadian airports, Edmonton International Airport serves about six million passengers per year and offers service to more than 50 national and international destinations.

Edmonton International Airport is the fifth busiest airport in Canada in terms of passengers, contributing \$1.6 billion in economic value to the Edmonton region each year and, with more than 4,000 employees, is one of the region's largest employers.

We express our sincere thanks and appreciation to the entire staff at Edmonton International Airport for their warm hospitality and cooperation to CATSA's photography team this year. It is a partnership we are proud of and we look forward to continue working together in the years to come.

# Who We Are

*The Canadian Air Transport Security Authority (CATSA) is a Crown corporation that is charged with protecting the public by screening air travellers and their baggage.*

*We operate our screening programs inside a larger system: the Canadian civil aviation system.*

*As we look back at our ninth year of operations, we expressly acknowledge that collaboration is key to the security of the civil aviation system in Canada.*

*Working closely with our partners in the aviation industry allows our dedicated team to ensure a safe, secure and positive passenger experience for all air travellers.*

## MISSION

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

## VISION

CATSA's vision is to excel as a world leader in air transport security. We will achieve our vision through:

- Our service: We provide the best possible passenger experience and deliver value to Canadians with an optimal use of our resources;
- Our people: We are engaged, committed and succeed through teamwork; and
- Our partnerships: We work in collaboration with partners to generate mutual benefits and improvements.

## VALUES

Fairness  
Loyalty  
Accountability

Integrity  
Respect

Established as a federal Crown corporation on April 1, 2002, CATSA was created to oversee and strengthen aviation security screening in Canada, and – in doing so – to protect the public by securing critical elements of the air transportation system.

CATSA's goal is to provide a professional, effective and consistent level of security screening service across the country, at or above the standards set by our regulator, Transport Canada. Fully funded by parliamentary appropriations from the federal Consolidated Revenue Fund, CATSA is accountable to Parliament through the Minister of Transport, Infrastructure and Communities.

CATSA is governed by a Board of Directors with expertise in governance, public administration, private enterprise, aviation, transportation and security. CATSA's President and CEO and Senior Management Team direct CATSA's front-line operations, while Screening Officers are CATSA's public face and their performance is critical to our mission. Together, with our screening contractors, we have built an organizational culture based on teamwork and continuous improvement.

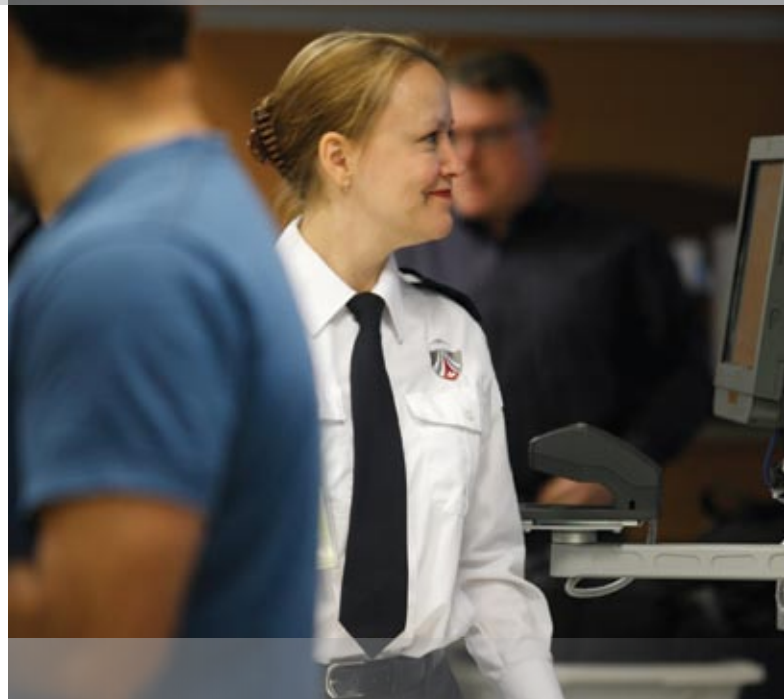
With headquarters in the National Capital Region and staff deployed across Canada in four geographic regions – Pacific (British Columbia and Yukon), Prairies (Prairies and Northwest Territories), Central (Ontario) and Eastern (Quebec, Atlantic Canada and Nunavut) – CATSA is committed to delivering security screening services that are:

## Effective

For CATSA, security is the primary objective. Above all else, our screening technology and procedures must detect potential threats to aviation security and ensure that they are not brought onto an aircraft.

## Efficient

Being efficient means finding the most cost-effective ways to deliver the best service. Efficiency continues to be a major consideration in our organizational structure, investments in new technology, and the evolution of screening procedures.



*Screening Officer Danielle at Central Hall PBS checkpoint.*

## Consistent

From the beginning, CATSA has worked to ensure that security screening is at the same level across Canada. Screening may not be performed identically everywhere and at all times, but passengers can count on consistency in the provision of professional, courteous and respectful security screening services.

## In the Interest of the Travelling Public

Recognizing security as CATSA's top priority, CATSA communicates with passengers regarding the screening process, particularly as security threats evolve. This allows passengers to better understand the screening requirements and to prepare accordingly. At the same time, we look to Screening Officers to help passengers comply with those requirements. By acting as facilitators of the screening process, and providing good customer service, Screening Officers re-enforce CATSA's security objectives.

# Working Better Together



*Left to right: Anisa, Screening Officer and Manjinder, Point Leader.*

## WHAT WE DO

*CATSA plays a key role in securing Canada's air transportation system by carrying out its mandated responsibilities at 89 designated airports across Canada.*

*CATSA's mandate includes four major programs.*

### **Pre-Board Screening (PBS)**

The most public and visible of CATSA's mandated activities is PBS. Passengers and their belongings are screened at CATSA's PBS checkpoints prior to their entry into the secure area of an air terminal building.

Screening Officers use a variety of screening technologies and procedures to examine passengers and their belongings, making sure that they are not carrying objects and materials that are on Transport Canada's *Prohibited Items List*, such as knives, firearms, or explosive devices and explosives, to eliminate the possibility that they could be used to cause harm.

Investments in new leading-edge technology and training of the Screening Officer workforce, combined with continuously improving operational procedures, ensure that CATSA's PBS remains compatible with its international partners in aviation security.





*Screening Officer Danielle performing screening of passenger Martha who is travelling to Abbotsford.*

## Hold-Baggage Screening (HBS)

In addition to screening passengers and their carry-on baggage, Screening Officers use specialized explosives detection equipment to screen over 62 million pieces of passengers' checked baggage each year.

A vital layer of security to protect the travelling public, CATSA's HBS activities involve the purchase and integration of equipment into an airport's baggage handling system, equipment operation and maintenance, and management of Screening Officer training on the detection equipment. CATSA also conducts ongoing testing and evaluation of new equipment and technologies, and performance measuring and monitoring of its HBS processes and systems.

## Non-Passenger Screening (NPS)

Passengers are not the only people CATSA screens. Since November 2002, Screening Officers also conduct screening of individuals accessing restricted areas at Canada's 28 major airports, providing an additional, effective layer of security. Non-passengers include flight and cabin crews, airline customer service personnel, caterers, maintenance personnel, baggage handlers, vendors and concession and other airport service staff. In 2010/11, CATSA conducted on a random basis, pursuant to Transport Canada's direction, over 1,200,000 non-passenger security screenings.

## Restricted Area Identity Card (RAIC)

The RAIC program is the world's first dual biometric airport identification program for non-passengers accessing restricted areas of air terminal buildings. The identity cards include a built-in computer chip with a microprocessor and memory to store biometric data of fingerprint and iris templates. The RAIC program includes the cards, fingerprint and iris readers installed in airport terminals and a network infrastructure linking airports to a secure central database. Fully operational since January 31, 2007, the RAIC program covers Canada's 28 major airports.

Having completed the life-cycle replacement of the system infrastructure, verified the security credential databases and fully developed the RAIC application, CATSA continues to maintain the existing biometric RAIC program. CATSA also evaluates practical applications of biometric reader units that can be deployed in a variety of operational environments.

# Message from our Chair

*The past year for CATSA was characterized by a strong focus on collaboration with stakeholders. We are continuing to work with those in the air transport industry to strengthen our relationships and, in turn, improve our part of the air travel experience for all passengers.*

The Government of Canada's commitment of long-term funding in Budget 2010 has also allowed CATSA to invest in new and proven technologies for the future and make improvements in the effectiveness and efficiency of screening processes, procedures and programs.

Following the budget announcement of 2010, the Government of Canada launched a full review of CATSA to ensure that travellers are getting value for their money. CATSA fully supported the review and worked closely with Transport Canada to develop plans that will address the review's recommendations.

As a result, changes to the passenger screening process have been and continue to be implemented with the goal of increasing throughput while improving the passenger experience and maintaining a high level of security.

This past year also saw the initiation of a competitive process for new contracts with screening contractors. These new contracts will be based on performance and will better balance aviation security with assisting passengers through the screening process. Also during the year, CATSA awarded NAV CANADA a five-year equipment maintenance services contract.



A handwritten signature in black ink, appearing to read 'D. Ian Glen'.

**D. Ian Glen, Q.C.**  
Chair

The Board of Directors worked very closely with CATSA's Senior Management Team in supporting the CATSA Review 2010, the preparation of the new Airport Screening Services Agreements and a review of the organization's performance measurement program. This program provides CATSA with management tools to monitor performance, set strategic priorities and measure CATSA's mandated activities and ongoing corporate activities. Additionally, the Board assisted in the oversight of the development of a quarterly corporate performance reporting package required for reporting to Parliament.

This past December, CATSA held its second Annual Public Meeting in Montreal. The meeting was well attended by representatives from the aviation, technology and security industries. The Board looks forward to this year's event which will be held in Winnipeg.

In the year ahead, the Board and CATSA management will continue to work with Transport Canada to ensure that ongoing inflationary, passenger growth and airport expansion issues are managed to sustain effective and efficient screening. We will also work with the Senior Management Team to ensure a smooth transition to the new airport screening service contracts and on the hold-baggage screening recapitalization program.

Through more extensive collaboration with our partners and stakeholders, CATSA will strive to create the best possible passenger experience while at the same time continue to address air transport security. This will ensure that CATSA is a high-performing organization that meets its statutory responsibilities. Canadians deserve no less.

On behalf of the Board of Directors, I would like to thank all CATSA employees, screening contractors and Screening Officers for their continued hard work and commitment to excellence in aviation security.

# Message from our President and CEO

*CATSA shares responsibility for civil aviation security with several federal government departments and agencies, aerodrome operators and air carriers. It is our collective responsibility to ensure the best possible passenger experience.*



*Kevin McGarr*

**Kevin McGarr**  
President and Chief  
Executive Officer

This is also very important as CATSA is one of the few organizations that have a public/private relationship. We have worked closely with our regulator, Transport Canada, to create an environment in which we can approach aviation security with innovation, flexibility and vigour.

Experience has shown that we must be able to rely on strong and functional collaborative relationships with our partners and stakeholders. Such an approach means we are better able to adapt more rapidly to changing threats and evolving technology to ensure an optimal security environment.

Over the last year, we continued to build and strengthen these relationships. For example, we entered into two international partnerships – with New Zealand's Aviation Security Service and with the Australian Department of Infrastructure and Transport – to share information, trial results and best practices in security screening.

The theme of collaboration has special relevance to CATSA this year as we initiated our largest-ever competitive process for airport screening services. The new long-term contracts offer us the opportunity to redefine our relationship with our screening contractors, implement change, improve the quality of our service delivery and create a screening process that better combines effectiveness with customer service.

As we change the way we conduct business, we have also embarked on our own internal transformation initiative to improve the quality of our service delivery and ensure the work of CATSA employees is well aligned to serve the new contracts that will come into place. I look forward to reporting on our progress in the year ahead.

Feedback from the Government of Canada's CATSA Review 2010 identified opportunities to improve passenger flow and customer service. As a result, a number of changes to airport screening processes were made that reflect recent investments in aviation security as well as feedback from the aviation community and travelling public.

With new equipment and lane configurations, the flow of passengers and bags through the security screening checkpoint will be enhanced. There are also new dedicated lanes for families and those with special needs in airports where space allowed. In partnership with the Canadian Border Services Agency and Transport Canada, we have expanded the use of Trusted Traveller CATSA Security Lines – a new risk-based initiative to improve customer service and efficiency – in Canada's major airports for NEXUS cardholders.

We have already noted a positive impact on the number of passengers screened each hour and/or improvements to aviation security and customer service. Ultimately, these changes are in the best interests of Canadians and are critical to CATSA's continued success.

On the heels of a year of testing and evaluating new technologies, 2010/11 resulted in several significant technological achievements.

Using made-in-Canada technology, a new boarding pass security system was implemented. This scanning technology enhances security, assists in the efficient resolution of security incidents and provides CATSA with information on wait times that we can use to improve passenger facilitation.

One of the highlights of my year was the opportunity to visit with Screening Officers in airports across the country. These visits, which began in February 2011, afforded me the chance to meet directly with those who work on the front lines of aviation security in Canada and respond to questions about the new screening contracts and recent changes to security screening processes.

At the same time, we also announced an enhanced Screening Officer training program which emphasizes that the security screening process involves both exceptional vigilance and passenger facilitation provided by screening personnel who are professional, courteous and respectful. The training is delivered through a new e-learning platform that offers computer-based modules complemented by lab-based learning.

In the year ahead, as new contracts with screening contractors are established, we will ensure that security remains at its highest level throughout the transition period. We will also improve our work processes, systems and capabilities.

Another major undertaking will be the replacement of the hold-baggage screening system. This multi-year initiative will involve modernizing our equipment and aligning our HBS system with those of the United States and the European Union, to ensure our system continues to remain compatible and employs the best industry practices and standards.

I would like to thank all employees, Screening Officers and screening contractors for their continued effort and dedication. I would also like to thank Transport Canada and all of our stakeholders for their continued support. In the face of this transitional year, we will remain committed to achieving the right balance between security and customer service. I am confident we will succeed.

# Working Better Together



*Aircraft groomer Kamles being screened by Screening Officer William.*

## THE YEAR IN REVIEW

***2010/11 marked a year of transition for CATSA and its front-line security screening operations across Canada. With the securing of long-term funding in Budget 2010, CATSA was able to maintain its core mandated activities, while looking to invest in its operations for the years to come.***

This past year saw the commitment of long-term funding for CATSA, the CATSA Review 2010 and the commencement of a competitive process for CATSA's airport screening services. These events have helped shape the future of aviation security in Canada, characterizing 2010/11 as a year of transition for the organization.

The new funds announced in Budget 2010 allowed us to begin acquiring new and proven technologies, while looking to improve the effectiveness and efficiency of our programs by identifying improvements in security screening processes and procedures.

Following the budget announcement, the Government of Canada launched a full review of CATSA in June 2010 to ensure that air travellers are getting value for their money. Consultations were conducted with stakeholders from across the aviation industry, including passengers and others interested parties.

### **For CATSA, specific elements of the review included:**

- identifying opportunities to improve the flow of passengers and baggage at Canada's designated airports while recognizing security objectives; and
- developing ideas for improvement in passenger facilitation.



Upon consideration of the findings, the Minister of Transport, Infrastructure and Communities, and the Minister of State (Transport), announced on February 3, 2011 that there would be improvements to the security screening process, including:

- changes to carry-on restrictions;
- dedicated lanes for families and individuals with special needs; and
- improved customer service, with Screening Officer facilitators helping passengers prepare for security screening during peak travel periods.

CATSA fully supported the review and worked closely with Transport Canada through to its completion, including the development of an action plan to implement the review's recommendations, and moved quickly to act on these changes at PBS checkpoints across Canada. The action plan is a demonstration of our commitment to respond to the passenger, stakeholder and Screening Officer feedback received during the review.

These changes will allow CATSA to more efficiently process passengers at PBS checkpoints, while maintaining or improving aviation security. Some of these improvements are illustrated through the diagrams on page 14, which show a PBS checkpoint before and after the changes have been implemented.



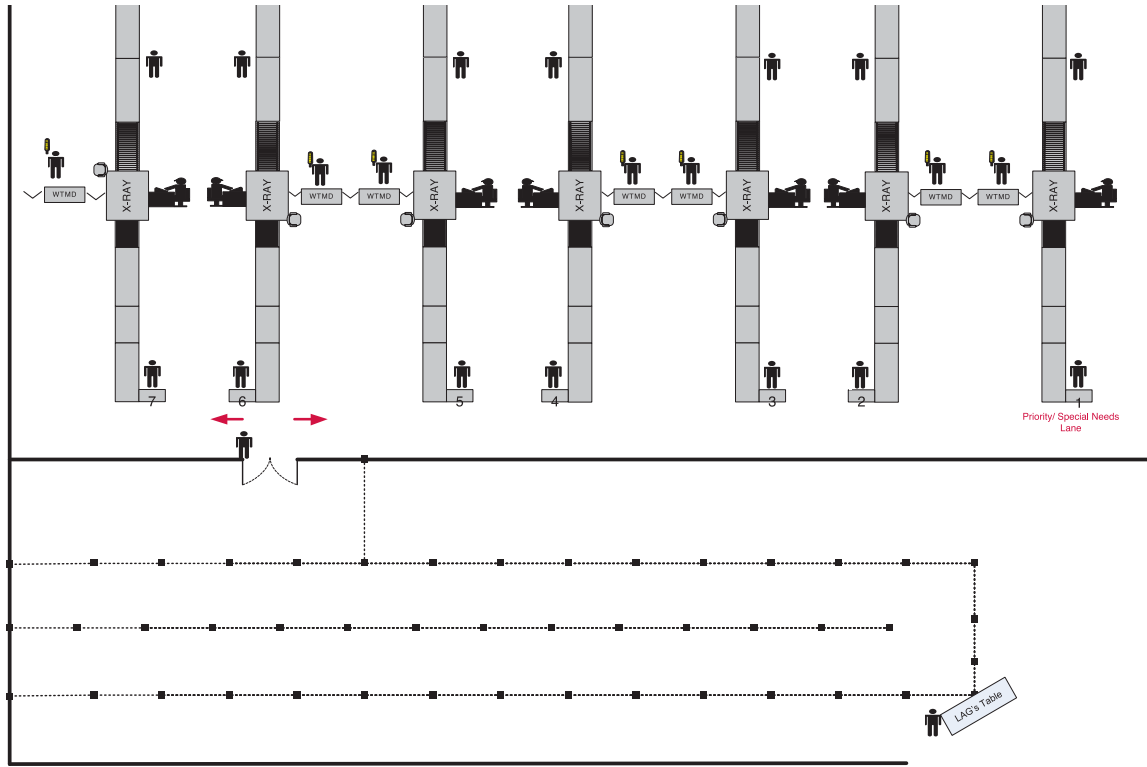
*Screening Officer Kimberly and passenger Brandy with sons, travelling to London, Ontario.*



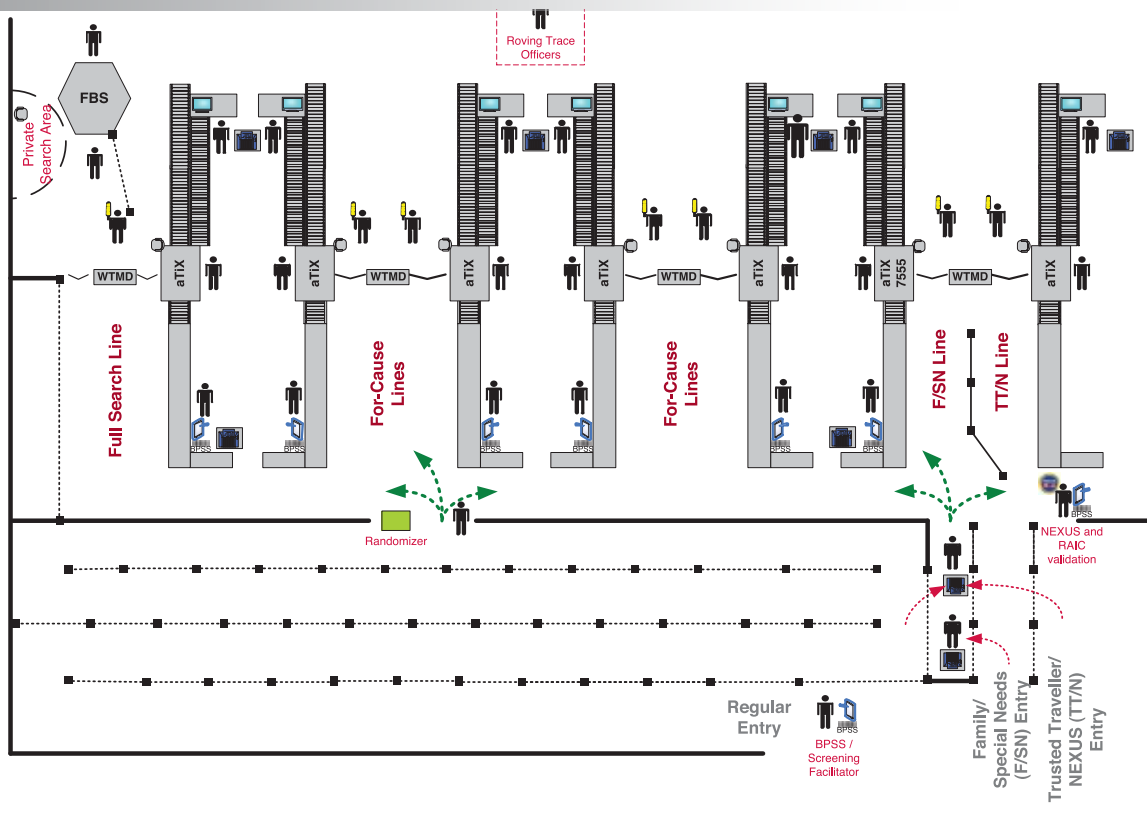
*The Honourable Chuck Strahl, former Minister of Transport, looking on as Rob Merrifield, former Minister of State (Transport), answers questions at the February 3, 2011 CATSA Review 2010 announcement at the Ottawa International Airport.*

*For more details on the changes at CATSA's PBS checkpoints, please visit [catsa-acsta.gc.ca](http://catsa-acsta.gc.ca)*

## CATSA PBS checkpoint "Before"



## CATSA PBS checkpoint "After"







*Central Hall PBS checkpoint at the Edmonton International Airport.*

Due to operational pressures, including projected growth in passenger volumes and inflation, efficiency gains in throughput are not expected to lead to shorter wait times for passengers in future years (for more information, see the “Future Outlook” section of the “Management Discussion and Analysis”). In light of such pressures, we remain committed to continue making positive changes to our operational procedures at the security checkpoint over the course of the next several years.

In addition to the operational efficiencies identified by the CATSA Review, another significant step we undertook over the last year was the issuance of a competitive process for airport screening services. With the financial certainty provided in Budget 2010, CATSA issued this process with the goal of redefining our relationship with screening contractors and to create a screening process that better combines security with customer service. The contracts will come into effect during the 2011/12 fiscal year (for more information, see the “Looking Ahead” section on page 36).

Recent events show that the civil aviation system remains a target for terrorist activity. From the December 25, 2009 attempted terrorist incident to the air cargo plot in October 2010, CATSA's screening services remain increasingly important in the face of ongoing security risks and threats.

That is why we are transitioning the way we do business and the way we provide security screening services to the travelling public in Canada. In the face of this transition, CATSA remains committed to achieving the right balance between security and customer service. However, we recognize that we are not alone in this experience.

Passengers may not differentiate between the various organizations they encounter at the airport so it is the collective responsibility of all of us in the aviation industry to work closely together in ensuring that air travel in Canada is a positive experience for everyone.

For these reasons, we are pleased to highlight our stakeholders and industry partners in this year's Annual Report and the notable events and initiatives that marked 2010/11. Together, we continue to make progress in improving air transport security through mutual respect, cooperation and dedication.

# Working Better Together



*A passenger at Edmonton International Airport presenting their electronic boarding pass at the PBS checkpoint.*

## COLLABORATION AT WORK

*Collaborating with our service providers, regulator and stakeholders is an essential element of our security approach.*

In executing our mandate, we work closely with our regulator, Transport Canada, our partners in the aviation industry, other government organizations, law enforcement authorities and our screening contractors. The very nature of CATSA's operations and our day-to-day success in delivering our mandate is contingent upon our relationships with partners and stakeholders.

Over the course of 2010/11, collaboration and our stakeholder relationships remained at the front and centre of our operations. From pilot projects to operational changes to implementing new technologies, the events of the past year required us to work better together with our partners to continue meeting the demands and challenges of our security environment. Together, we are committed to contributing to the best air travel experience possible for those passing through Canada's designated airports.

Here are some highlights of our work with our partners in 2010/11.

### **Trusted Traveller CATSA Security Line**

Over the past year, CATSA launched a new risk-based initiative, applying an existing security program to improve customer service and efficiency at airport checkpoints. In collaboration with the Canada Border Services Agency (CBSA) and Transport Canada, we established the Trusted Traveller CATSA Security Line (TTCSL) at many of our domestic and international PBS checkpoints.

NEXUS is a CBSA pre-approval program for travellers who frequently travel between Canada and the United States. Anyone may apply for NEXUS membership, and after undergoing a voluntary, thorough risk assessment process conducted by both the Canadian and US governments, approved applicants may use expedited services at some border crossings.

CATSA has leveraged CBSA's NEXUS program to enhance its PBS operations, opening a specialty lane for use by members of this program. The TTCSL is an additional benefit for existing NEXUS members, as it allows them to pass through selected PBS checkpoints more quickly.



*Left to right: Diane Trenn, Edmonton International Airport's Vice-President, Operations; Reg Milley, Edmonton International Airport's President and CEO; Rodney Gore, CATSA Operations Manager; Jonathan, Screening Officer; Traci Bednard, Edmonton International Airport's Vice-President; and Fernando Garcia, GARDA Service Delivery Manager.*

By collaborating with this recognized and well-established pre-approval program, CATSA has drawn from a solid base of existing "Trusted Travellers," without requiring additional resources to pre-approve new travellers. We are now working with our partners to pursue potential expansion to checkpoints serving US-bound flights and in the future, the TTCSL may expand to validate members biometrically, via the CBSA database.

This initiative allows CATSA to better use its available resources and space, while enhancing the passenger experience and maintaining the same level of security for all air travellers. The TTCSL will benefit all travellers, over time as the program grows. By streamlining the PBS process for "Trusted Travellers," CATSA will enhance the efficiency of other screening lanes as well.

CATSA continues to work with the CBSA and Transport Canada to reach air travellers. As the implementation of this initiative progresses, CATSA hopes to include members of other pre-cleared, low-risk traveller programs in the future.

## **New Terminal at the Billy Bishop Toronto City Centre Airport**

This past year, the new full-service terminal at Billy Bishop Toronto City Centre Airport was unveiled. After three years of planning and preparation, the new terminal features enhanced traveller facilities, a mix of retail and other services, and expanded security screening areas.

CATSA was involved at the start of the planning process and maintained its participation throughout the project, which resulted in a major impact on its security operations. Now, CATSA's screening operations have moved from a "side of the house" system in the old terminal, where PBS and HBS were combined together, to a completely automated "back of the house" HBS system. Checked baggage is now handed over at air carrier check-in counters and is sent to be screened behind the scenes.

Through dialogue and planning, CATSA also ensured that the interests and requirements of its screening contractor were also represented. The new terminal includes adequate space for training, for offices and for a break room.

As a result of the early engagement of all airport stakeholders, the opening of the new terminal at the Billy Bishop Toronto City Centre Airport has been very successful. Approximately 1.2 million people flew from the airport in 2010; this is expected to grow with the opening of the new terminal. Through teamwork and collaboration, CATSA is ready to meet these expectations with world-class air security and continued excellence in customer service.

## **New Boarding Pass Security System**

The process of validating boarding passes at CATSA's PBS checkpoints has become more secure, thanks to a new scanning technology: the Boarding Pass Security System (BPSS).

BPSS is a new technology that scans the barcodes of electronic and paper boarding passes, replacing the process of Screening Officers visually inspecting and validating passengers' boarding passes.

CATSA began testing the BPSS at the Calgary International Airport in 2007 in partnership with Air Canada. Further testing took place at the Montréal-Pierre Elliott Trudeau International Airport in the spring of 2009. Now at seven of Canada's busiest airports, this system has improved security by reducing the likelihood that a false or duplicate boarding pass could be used to access the secure area of an airport terminal building. It has also helped CATSA quickly resolve issues such as security incidents, passenger claims and complaints.

The boarding pass information collected by this system will help CATSA measure wait times and throughput, allowing us to enhance customer service by finding ways to improve passenger facilitation and processing times. CATSA recognizes the importance of protecting the privacy of all air travellers, and has been consulting the Office of the Privacy Commissioner to ensure that all information collected respects the privacy of the air travellers.

CATSA will be starting a trial in 2011/12 at the Toronto Lester B. Pearson International Airport to share live screening checkpoint wait times with passengers via the CATSA Web site and mobile Web site. Following the trial, we intend to expand the use of this feature. As we continue to operate and enhance this system, we will continue to pursue the sharing of this information in order to increase the overall level of security and efficiency in the airport community, and improve the level of customer service and satisfaction at airports.

## **Vancouver Non-Passenger Screening Vehicle Checkpoint Trial**

Following the construction of a vehicle search checkpoint outside the air terminal building of the Vancouver International Airport, CATSA launched an NPS vehicle search pilot project in September 2010. The trial focused on the random screening of non-passenger vehicles and the occupants of these vehicles accessing the main apron at the airport. This pilot project adds another important layer of security to the current system to better protect the entire airport community.

Prior to the launch of the pilot, consultations were held with local industry representatives, including the Vancouver International Airport Authority, air carriers, air carrier service companies and catering companies, in addition to cargo handlers. Since the pilot launched, local industry members have reacted positively.

The initial trial successfully concluded on March 31, 2011, and the checkpoint is still operational.

## **CATSA Introduces the Security Tamper-Evident Bags Program**

Passengers transferring through Toronto Lester B. Pearson International Airport and Montréal-Pierre Elliott Trudeau International Airport from flights originating from European Union countries are now permitted to carry their duty-free purchases on board connecting aircraft provided they are in sealed security tamper-evident bags (STEBs).

First introduced in Toronto in May of 2010, STEBs are clear plastic bags specifically designed to hold liquids, aerosols and gels purchased by passengers at duty-free retailers located after the security screening checkpoint in airports in European Union nations. Once sealed, the bag cannot be opened and resealed. If the bag has been tampered with in any way, it will no longer be considered secure.

While the STEBs program is currently only available at Toronto Pearson and Montréal-Trudeau International Airports, CATSA, as part of its commitment to passenger convenience and excellence in customer service, plans on expanding this program to all major airports with in-bound flights from the European Union.

## **“Pack smart” Campaign Partnerships**

In 2010/11, CATSA continued with its long-term passenger campaign that assists air travellers in being better prepared when they arrive at PBS. The campaign, based on social marketing principles with an evidence-based, targeted approach to communications, focuses on reaching passengers prior to arriving at the airport and providing information on what they can bring and how to pack for security screening.





*Screening Officer Gurpreet greeting a passenger at the PBS checkpoint.*

Over the past year, CATSA's passenger campaign established partnerships with a number of key industry stakeholders, including major air carriers, Air Transat and Porter Airlines. As part of these partnerships, CATSA's "Pack smart" messaging appeared in reminder emails to passengers, and on e-tickets and paper boarding cards. CATSA's "Prep-and-Fly Pack smart" tool also appeared on their Web sites, providing passengers a direct opportunity to create their own packing list which helps determine what items are permitted and non-permitted through CATSA's PBS checkpoints.

These partnerships not only present a great opportunity for industry collaboration in support of the passenger, but it allows CATSA to reach air travellers when they are most receptive to receiving our messages – that is, when they are researching their trip, booking their air travel and finally, when they are preparing and packing for the airport.

CATSA hopes to continue with these successful joint communication initiatives and to expand its partnership efforts to other air carriers and airport authorities in the near future.

## **Foreign Language Partnership at Montréal-Pierre Elliott Trudeau International Airport**

When travelling abroad, hearing someone speak your language in a busy airport is comforting. Knowing the importance of understanding screening requirements to the overall travel

experience, CATSA established a trial language partnership among the airport community at Montréal-Pierre Elliott Trudeau International Airport.

This past year, Screening Officers at the Montréal airport who are fluent in a foreign language have been encouraged to pro-actively approach foreign travellers in their mother tongue. These Screening Officers can ease the stress and confusion of travelling abroad by explaining screening requirements to travellers in their own language.

Screening Officers have been well received by passengers; for those passengers, the friendly voice of someone speaking in a familiar language, or showing knowledge and respect for cultural differences has made a big difference to their travel experience. A diverse workforce working with a diverse public has made this trial a success.

## **Success of New Testing Facility**

CATSA's new testing facility continued to be a source of pride and success in 2010. Opened in 2009, the facility replicates busy airport screening lanes, allowing CATSA to test new procedures and equipment within the test facility first, avoiding disruptions in the airport.

This new facility has significantly enhanced our ability to assess new leading technology and helps us to maintain international security equivalency. It has also allowed us to partner and collaborate with many industry stakeholders and other security organizations. Throughout 2010, CATSA provided tours and demonstrations to various groups, including the Office of the Auditor General of Canada, the Office of the Privacy Commissioner of Canada, the Transportation Security Administration, the International Air Transport Association, the International Transport Security Human Factors Technical Advisory Group, the Australian Department for Infrastructure and Transport, the RCMP, the CBSA, Canada Post, and numerous screening technology manufacturers.

CATSA also collaborated with Transport Canada, providing its inspectors tours and demonstrations of our various screening technologies. Transport Canada inspectors were provided with the opportunity to see CATSA's equipment in operation and ask CATSA technical experts questions regarding the equipment. They also received training on the use of the equipment.

This past year, the new CATSA testing facility has proven to be extremely useful and successful. It has enabled cross-functional testing and team collaboration, as well as industry-wide partnerships, allowing CATSA to ensure that the screening technologies are ready for operation and integration.

## RAIC Renewal Application

In 2010, CATSA undertook a complete life-cycle replacement of the RAIC system infrastructure. The primary focus of the infrastructure renewal was to introduce an improved application platform and better hardware to the system infrastructure, such as faster biometric enrolment devices, cameras and printers.

The Calgary and Saskatoon International Airports served as the test and pilot locations, and were instrumental in the development of the new system. Through their participation, CATSA was able to create an application that meets the needs of all major airports in the country.

The deployment of the new RAIC system in all 28 RAIC airports was completed in November 2010. With the prospect of expanding Non-Passenger Screening (NPS), CATSA continues to explore and evaluate practical applications of biometric readers that can be deployed in a variety of operational environments.

## Teaming with our International Partners

In 2010, CATSA entered into two international partnerships – one with New Zealand's Aviation Security Service (AVSEC) and one with the Australian Department of Infrastructure and Transport. Both partnerships include a memorandum of understanding to share information, trial results and best practices in security screening.

These partnerships are proving to be very beneficial to CATSA as well as to both New Zealand's AVSEC and the Australian Department of Infrastructure and Transport. This international collaboration is allowing CATSA to share our technological expertise in efforts to determine international best practices. It also allows CATSA to learn from the initiatives and testing results shared with us by our foreign counterparts.

This past year, CATSA was also invited to sit as an observer at the European Civil Aviation Conference Technical Task Force. The Technical Task Force is very active in developing technical specifications and common testing methodologies for different types of security equipment for use in the European Union.

By participating in this task force, CATSA has been able to share its technical expertise and experience with security representatives from the European Union, the United States and Israel. This international collaboration also ensures that CATSA is current on the security initiatives in the European Union and the United States.

## Maintenance Contract Awarded

After several months of preparation and completion of a competitive bidding and selection process, CATSA awarded NAV CANADA with a five-year contract for maintenance services in support of PBS and HBS equipment.

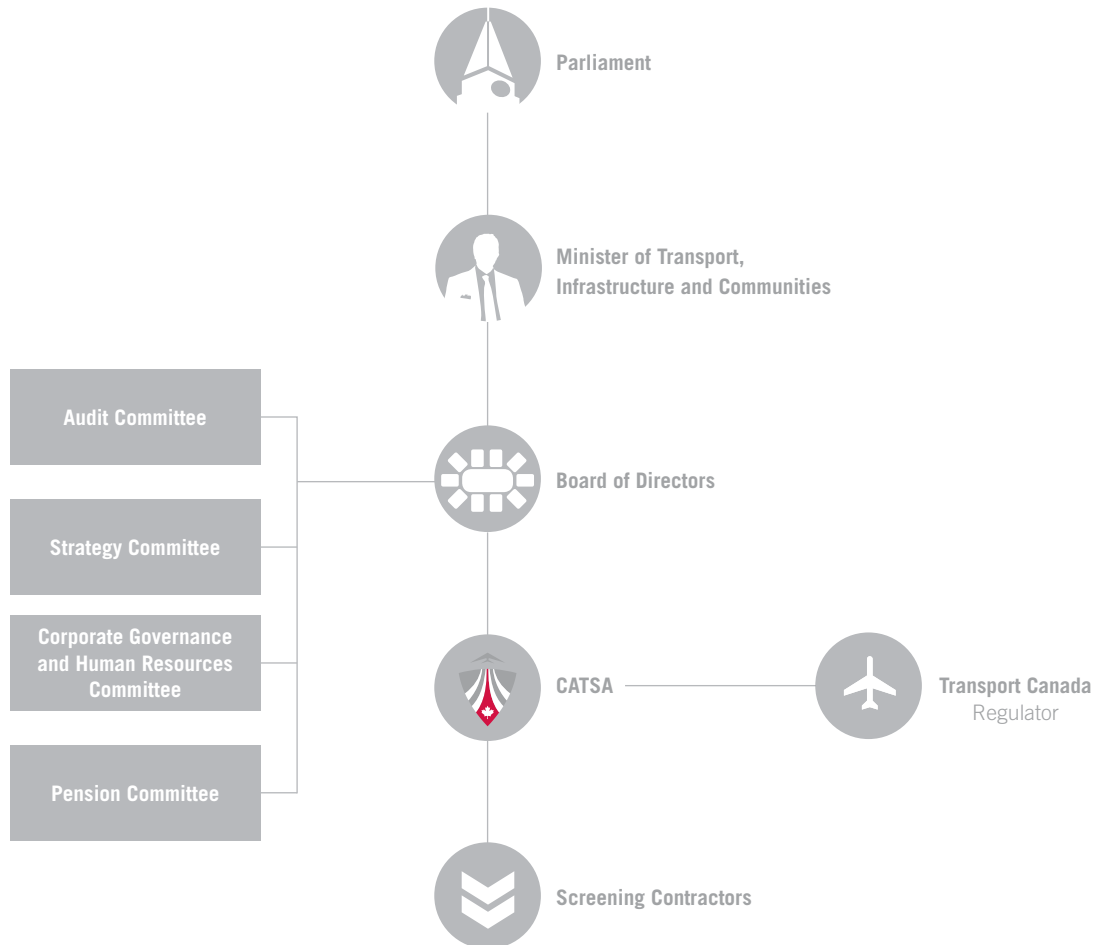
This new maintenance contract is one example of the Transformation process that CATSA is currently undergoing (for more information, see the "Our Approach" section on page 26). The contract included many new features, such as key performance indicators, performance payment program and inventory management. CATSA looks forward to continuing its partnership with NAV CANADA in the years to come.

*Opposite page: RCMP Constable Roger Perrault; Marzena, Screening Officer; Daphne, Screening Officer; and Rodney Gore, CATSA Operations Manager.*





# Our Board of Directors



*Visit the Board of Directors section under About Us on our Web site, [catsa-acsta.gc.ca](http://catsa-acsta.gc.ca), for detailed biographies.*



**D. Ian Glen, Q.C.**  
Ottawa, ON

**Chair Since:**  
June 4, 2007

**Chair of the Board of Directors**

**CATSA Committees:**  
Audit Committee, Corporate Governance and Human Resources Committee, Pension Committee, Strategy Committee





**Michael D. Campbell**  
Charlottetown, PEI

**Director Since:**  
May 11, 2007

**Director**

**CATSA Committees:**  
Audit Committee,  
Strategy Committee

**Industry Nominee of:**  
Canadian Airports  
Council (CAC)



**William Deluce**  
Toronto, ON

**Director Since:**  
January 14, 2010

**Director**

**CATSA Committees:**  
Corporate Governance  
and Human Resources  
Committee, Strategy  
Committee

**Industry Nominee of:**  
Air Transport Association  
of Canada (ATAC)



**Gaetane C. Hains**  
Anjou, QC

**Director Since:**  
August 1, 2007

**Director**

**CATSA Committees:**  
Corporate Governance  
and Human Resources  
Committee, Pension  
Committee



**Denis Jacob, ICD.D**  
Lorraine, QC

**Director Since:**  
January 26, 2007

**Director**

**CATSA Committees:**  
Audit Committee,  
Strategy Committee

**Industry Nominee of:**  
National Airlines Council  
of Canada (NACC)



**John Kaldeway, ICD.D**  
Brampton, ON

**Director Since:**  
February 9, 2007

**Director**

**CATSA Committees:**  
Audit Committee,  
Strategy Committee

**Industry Nominee of:**  
Canadian Airports  
Council (CAC)



**Dora Koop, ICD.D**  
Westmount, QC

**Director Since:**  
November 1, 2007

**Director**

**CATSA Committees:**  
Corporate Governance  
and Human Resources  
Committee, Strategy  
Committee



**Gene McLean**  
Toronto, ON

**Director Since:**  
October 12, 2007

**Director**

**CATSA Committees:**  
Corporate Governance  
and Human Resources  
Committee, Pension  
Committee



**H. Glenn Rainbird, O.C.**  
Carrying Place, ON

**Director Since:**  
January 26, 2007

**Director**

**CATSA Committees:**  
Pension Committee,  
Strategy Committee



**Donald K. Robinson, Q.C.**  
Oakville, ON

**Director Since:**  
May 11, 2007

**Director**

**CATSA Committees:**  
Corporate Governance  
and Human Resources  
Committee, Strategy  
Committee



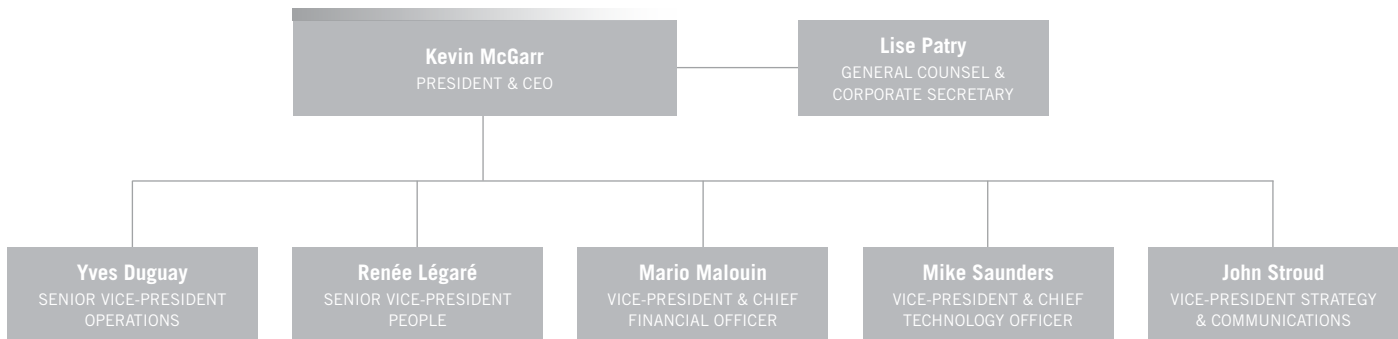
**Mike H. Shaikh, FCA**  
Calgary AB

**Director Since:**  
April 11, 2008

**Director**

**CATSA Committees:**  
Audit Committee,  
Pension Committee

# Our Senior Management Team



*Visit the Executive Team section under About Us on our Web site, [catsa-acsta.gc.ca](http://catsa-acsta.gc.ca), for detailed biographies.*



## **Kevin McGarr** President and Chief Executive Officer (CEO)

Mr. McGarr joined CATSA in January 2003 as the Director responsible for the development and implementation of a secure identification program enhanced by biometric technologies along with the development of a non-passenger security screening program to enhance airport access controls. He was appointed to the position of President and Chief Executive Officer by CATSA's Board of Directors on September 15, 2008, after serving as interim President and Chief Executive Officer.

Prior to joining CATSA, Mr. McGarr enjoyed a 26-year career with the Montréal Urban Community Police Service. After a distinguished career in law enforcement, Mr. McGarr worked with a professional services firm, providing services for the detection and prevention of corporate and financial malfeasance.

Mr. McGarr holds a Master's Degree in Business Administration from the International Aviation Program at the John Molson School of Business at Concordia University. He has completed his Director's Education Program with the Institute of Corporate Directors.



**Yves Duguay**  
Senior Vice-President, Operations

Prior to joining CATSA in September 2007, Mr. Duguay began his career as a security professional with the Royal Canadian Mounted Police (RCMP). Subsequently, he joined Air Canada where he steered the security department through the tragic incident of 9/11 and transformed security into a security management system that promoted security as one of Air Canada's core corporate values. He was appointed to the role of Senior Vice-President, Operations in March 2009.

Mr. Duguay holds certificates in Management and Informatics from Université de Montréal and in Aviation Safety and Security from George Washington University. He has completed the Director's Education program from the Institute of Corporate Directors and is working to complete the EMBA Program from McGill University.



**Renée Légaré**  
Senior Vice-President, People

During her career at CATSA, since June 2002, Ms. Légaré led the negotiations for the contract extensions with our screening contractors across Canada and the implementation of the wage and benefits harmonization of the screening workforce. Ms. Légaré also oversaw the development of various programs within CATSA including HR programs and CATSA's National Training and Certification Program. She also served as acting Executive Vice-President and Chief Operating Officer from May 2008 to February 2009.

Renée Légaré earned her Bachelor's degree in Economics from Université de Sherbrooke, a Master's degree in Industrial Relations from Université du Québec en Outaouais and completed her Director's Education Program with the Institute of Corporate Directors.



**Mario Malouin**  
Vice-President and Chief Financial Officer

Mr. Malouin joined CATSA as Director, Internal Audit in July 2006, after working as a Principal in the Office of the Auditor General. He was appointed to the role of Vice-President and Chief Financial Officer in January 2009.

Mr. Malouin holds a Bachelor's degree in Business Administration from Université Laval and is a member of the Order of Chartered Accountants of Quebec and the Institute of Chartered Accountants of Ontario. He has a certificate in Risk Management from Université de Mons in Belgium, and is currently completing a Master of Arts in War Studies at the Royal Military College of Canada.



**Lise Patry**  
General Counsel and Corporate Secretary

Ms. Patry joined CATSA in 2002 and occupied a number of positions within the organization prior to being appointed General Counsel and Corporate Secretary in February 2008.

Ms. Patry has completed the ICAO's Aviation Security Manager Program and the Institute of Corporate Directors' Education Program. She graduated *magna cum laude* with a chemical engineering degree from the University of Ottawa and holds a degree in Common Law from McGill University.



**Mike Saunders**  
Vice-President and Chief Technology Officer

Mr. Saunders joined CATSA as Vice-President and Chief Technology Officer in July 2008, after serving for 28 years with the Royal Canadian Mounted Police (RCMP). He held many roles with the RCMP, attaining the rank of Assistant Commissioner.

Mr. Saunders holds a Bachelor's Degree in Professional Studies, Business Administration and Human Resources Management from Barry University in Miami, Florida.



**John Stroud**  
Vice-President, Strategy and Communications

Prior to joining CATSA in April 2002, Mr. Stroud worked on the conception and development of CATSA at Transport Canada. He was appointed to Vice-President, Strategy and Communications in December, 2007.

Mr. Stroud holds a Bachelor of Arts in Political Science from the University of Toronto; a Master's degree in Philosophy from Oxford University; and a Bachelor of Law and Master's of Public Administration from the University of Victoria.

# Our Approach

*Security in the aviation industry involves a three-pronged approach: equipment, processes and people. All of these things are important and the latest technologies strengthen this approach, but in the end it is the people who count the most.*

CATSA is a team of people who are passionate about what they do – about their jobs, about working as a team and about the security of air travellers at airports across the country.

As we transition the way we do business and the way we provide security screening services to the travelling public in Canada, the work of CATSA's team over the past year has resulted in a number of accomplishments. These accomplishments have allowed the organization to better its business, to better its relationships with stakeholders, and to better serve passengers.

Here are some of our highlights from the past year.

## **CATSA's Transformation**

The year 2010/11 was one of transition for CATSA, during which the organization focused on improving its effectiveness and efficiency while planning and investing for the long-term through its Transformation Strategy. CATSA needed to assess its existing practices and proposed plans to implement the behavioural changes required to re-position the organization's corporate and operational strategies.

Led by CATSA's Senior Vice-President, People, the task was to develop a plan to position the organization as a contributing partner to the new strategic business relationships we wish to develop with our screening contractors. The first step identified in CATSA's Transformation Strategy was to identify and ensure the right behaviours were communicated and developed throughout the organization.

In June 2010, the three themes for the Transformation Strategy were identified, approved and communicated, which were:

- 1. Focusing on outcomes:** We make our expectations clear from the outset. Service providers and employees ask questions to ensure we are all aligned.
- 2. Planning, then doing:** We plan, execute according to plan, and measure our performance. We have a clear set of priorities and we execute them well.
- 3. Maximizing benefits while minimizing expenditures:** We get the same or better results, with a more efficient use of our efforts and funds.

In December 2010, CATSA developed and delivered a Behavioural Assessment Survey in order to identify the behaviours and competencies that we needed to promote in order to achieve a successful transformation. Following this survey, CATSA's Senior Management Team identified management competencies which CATSA's Leadership Team will be asked to embrace.

Going forward, we will continue to work on our Transformation Strategy to ensure that:

- we provide the best possible passenger experience and deliver value to Canadians with an optimal use of our resources;
- we have an engaged, committed workforce and succeed through teamwork; and
- we work in collaboration with partners to generate mutual benefits and improvements.



*Screening Officer Chelsea returning a boarding pass to a passenger at the Edmonton International Airport.*

## Screening Officer Foundations

CATSA's Learning and Development team transformed the existing Foundations I and II training for Screening Officers in 2010/11 into a new program that will bring greater clarity to Screening Officers about what is expected from them on the front-lines at airports across the country.

Now called "Screening Officer Foundations," the new program emphasizes that the security screening process involves both exceptional vigilance and passenger facilitation, with air travellers moving effectively and efficiently through the checkpoint with assistance from Screening Officers who are courteous, respectful and professional.

Currently, there are Screening Officers who understand and appreciate the role they play in facilitating passengers through the screening process. They have demonstrated their ability to balance customer service with screening requirements and appreciate the impact a positive attitude and customer-focused approach can have on the entire air travel experience. With this new training program, this approach will become the norm for all Screening Officers, and not the exception.

CATSA is committed to delivering first-class security screening and is always looking for ways to enhance the passenger experience by making airport security screening as quick and convenient as possible. The new program will be launched in 2011.

## Revamping Procurement and Contracting

For CATSA and the third-party service delivery business model it employs, a sound and robust procurement system is a requirement. That is why a special focus was put on the procurement and contracting aspect of our projects in 2010/11.

Over the past year, CATSA's Procurement and Contracting team focused on developing long-term strategies to ensure the timely and efficient supply of goods and services that are critical for CATSA to meet its core business objectives. Looking to move away from its transactional mode of operation to one that drives a business benefit to the organization, the Procurement and Contracting team focused on the discipline of planning and developing a stronger client service orientation.

In addition to implementing changes to internal processes, the Procurement and Contracting team worked to establish a supplier relationship management framework. Coming into effect in 2011/12, the framework is designed to create effective, open, fair, transparent processes and tools that transform our approach to managing relationships with our suppliers.

CATSA's Procurement and Contracting team led the charge in our transformational corporate-based initiatives in 2010/11. Their work, and their emphasis on the importance of proactive collaboration, ensured that efficiencies and value-for-money in CATSA's procurement and contracting activities were achieved, both in the past year and in the years to come.



## Human Resources Report

CATSA offers challenging, meaningful careers. We endeavour to have the best people in place, to provide conditions where staff can do their best work and create a climate that is conducive to optimal performance and job satisfaction.

In the past few years, CATSA has experienced significant changes in the regions and at headquarters. As an organization, it was determined that from both a corporate and an employee's perspective, it was important to ensure a clear understanding of all jobs at CATSA and to clearly define roles and responsibilities against CATSA's corporate objectives. Consequently, a job analysis and description project was launched in the last quarter of 2010/11.

The project focused on formally documenting roles and responsibilities, as well as skills and abilities considered necessary to ensure successful performance within the job. The project also sought to benchmark salaries internally and against the marketplace to ensure CATSA's salaries are competitive.

The goal of the project was to help CATSA remain competitive in both internal and external marketplaces to continue to attract, motivate and retain a diverse and talented workforce by connecting our people to what matters most – people, purpose and resources.

## Sharing Knowledge and Best Practices – Learning and Development Assignment in Haiti

In October 2010, CATSA, in collaboration with Transport Canada, the Department of Homeland Security and the Transportation Security Administration, went to Haiti to work with the Port-au-Prince Airport Authority to provide enhanced training skills to Screening Officers and supervisors. A CATSA Learning Performance Advisor, Jamal Hdoud, was among the delegation.

During their time in Haiti, the delegation worked on many training exercises with the Port-au-Prince Airport Authority, including “train the trainer” sessions designed to upgrade the training staff's skills, and tools to provide the most effective methods of training for their Screening Officers. Despite the limited resources available at the Port-au-Prince Airport, the training sessions were very successful.

CATSA is planning to donate basic items to the Port-au-Prince Airport, such as a projector, flip charts, pens and notepads, to help the Port-au-Prince Airport Authority continue with the training.

Mr. Hdoud, and the rest of the delegation, experienced firsthand the strength of the Haitian people. Close to a year after the earthquake that devastated the nation, the delegation witnessed their determination and their drive to put their country and their lives back together, piece by piece. This experience has exposed CATSA employees to the state of aviation security around the world and CATSA is proud to have been involved in this delegation to Haiti and to share its knowledge and experience with its international partners.

## CATSA Academy

CATSA fosters a learning environment that benefits not only individual employees but the organization as a whole. Learning plays a vital role in the effective management of CATSA's resources and meeting its organizational goals.

In an effort to promote an environment of continuous learning, CATSA entered into a joint partnership with the John Molson School of Business at Concordia University in Montréal in 2006. Through this partnership, the Certificate in Management of Aviation Security was developed.

CATSA saw the first group of employees participating in this program graduate in April 2008. The second cohort of employees commenced studies in May 2008, and graduated in November 2010. We are proud of our employees' dedication to knowledge and development, as exemplified by the success of this certificate program.

## Employee of the Year – and the Award Goes to...



*CATSA's President and CEO, Kevin McGarr, presenting the CEO Employee of the Year Award to Brian Crooks.*

CATSA is pleased to announce that Brian Crooks, Regional Leader, Screening Technologies (Pacific) has been named the CEO Employee of the Year for 2010/11.

Brian was nominated for this award due to his exceptional work on the recent deployment and installation of five aTiX units at Regina International Airport. Although this project was very challenging, he handled all issues with calmness, professionalism, integrity and true commitment to completing this project on time with minimal disruptions and effect on passengers, PBS operations and stakeholders. His commitment, care and dedication in the successful completion of this assignment are to be commended. Brian is well regarded by his colleagues and known as an excellent client service provider and dependable team player for the Technology Branch.

Brian received the CEO Monthly Award in January 2011.

Congratulations, Brian! Thank you for your ongoing hard work and dedication to the organization.

## CATSA IN THE COMMUNITY

### United Way Campaign

At CATSA, our employees are committed to public service and community involvement both in Ottawa and the regions. Each year, our employees participate in the United Way/Centraide Campaign. This year's theme was *Make Change Happen – Be United (Changeons les choses – Centraide)*. It encompassed the knowledge that together we can make a difference in our communities.

Through our payroll deductions and various events, CATSA was happy to participate in the 2010 campaign – our opportunity to help strengthen our communities, where individuals and families can receive support when faced with challenges or crisis.

The CATSA Hockey Team used a friendly rivalry as a way to raise funds for this year's United Way Campaign, facing off against SeaSI, an Ottawa-based IM/IT consulting firm, in October. This hard-fought, nail-biting match resulting in CATSA falling 7-5 to SeaSI. Despite the loss, it was a fun-filled night, capturing the spirit of the event.

### Computers for Schools Program

For the past three years, CATSA has participated in the Government of Canada's "Computers for Schools" program. After removing and replacing parts, installing operating systems, and cleaning and repackaging all equipment, the "Computers for Schools" program prepares all donated items for shipment to schools, public libraries and non-profit learning organizations across the country.

This program helps keep older computer equipment out of landfills and thanks to this program, none of CATSA's used equipment has ended up in a landfill. Since 2007, CATSA has donated 698 computers, 239 monitors, 31 laptops, 49 printers, 6 server racks and 5 servers to the Computers for Schools program.

# Summary of Performance

*Security is not just a question of people, procedures and equipment. It is about ensuring those procedures work and are followed. It is about ensuring the equipment is effective and used correctly. Above all, it is about improved outcomes.*

CATSA has a Performance Measurement Program that reports to its Board of Directors and Senior Management on its mandated activities and the corporate services that support the delivery of those mandated activities.

For each of CATSA's four mandated activities, specific criteria have been defined to determine how to measure security screening performance in terms of being effective, efficient, consistent, and in the interest of the travelling public, as required by the *CATSA Act*. From there, one or more key performance indicators (KPIs) have been identified or developed to satisfy the requirements of each of the criteria.

In 2009/10, CATSA started to improve its Performance Measurement Program through the development of a Performance Measurement Framework. This framework measures the degree to which each of its four mandated activities is effective, efficient, consistent, and in the interest of the travelling public.<sup>1</sup> CATSA's corporate Performance Measurement Framework is illustrated below.

Mandated Activity	Pre-Board Screening (PBS)	Hold-Baggage Screening (HBS)	Non-Passenger Screening (NPS)	Restricted Area Identity Card (RAIC)
<b>Output – Efficiency</b>	100% of passengers and carry-on items are screened for prohibited items at designated airports	100% of checked baggage is screened for explosive materials at designated airports	Non-passengers – selected at random – their belongings, and vehicles (as applicable) are screened for prohibited items at major airports	A national credential management system – dual biometric (iris and fingerprint) cards, software, and hardware – is developed and maintained for non-passengers at major airports
<b>Expected Result – Effectiveness</b>	Prohibited items, as defined by TC, are prevented from being brought into the sterile or restricted area of an airport or on board an aircraft	Checked baggage containing explosives is prevented from being loaded onto an aircraft	Among those non-passengers and vehicles selected for screening, prohibited items, as defined by TC, are intercepted at access points into the restricted area of major airports	Non-passengers to whom an airport authority has granted access rights to secure areas of the airport will have their identity verified by a biometric comparison and will have the validity of the Transportation Security Clearance (TSC) associated with their credential confirmed
<b>Expected Result – Consistency</b>	PBS is performed according to applicable statutory, regulatory, <i>Standard Operating Procedures</i> (SOPs), operational policy, and contractual/staffing requirements at designated airports	HBS is performed according to applicable statutory, regulatory, SOPs, operational policy, and contractual/staffing requirements at designated airports	NPS is performed according to applicable statutory, regulatory, SOPs, operational policy, and contractual/staffing requirements at major airports	RAIC meets applicable statutory, regulatory, SOPs, and operational policy requirements at major airports
<b>Expected Result – In the Interest of the Travelling Public</b>	The PBS process contributes to passengers at designated airports feeling secure and enjoying a reasonably pleasant travel experience that meets expectations (for example, departing on time, being treated courteously, not standing in lines for long periods, not having their carry-on items stolen or damaged)	The HBS process contributes to passengers at designated airports feeling secure and enjoying a reasonably pleasant travel experience that meets expectations (for example, departing on time, not having their checked baggage or items stolen or damaged)		

<sup>1</sup> The former criterion “In the Public Interest” has been renamed to “In the Interest of the Travelling Public” in order to better align with the key performance indicators currently included in this reporting category.



## Corporate Performance Results

In 2010/11, CATSA's Board of Directors and its Senior Management Team reviewed the Performance Measurement Program and further improvements to the program were made through the introduction of a quarterly corporate performance reporting package consisting of a dashboard and detailed corporate performance scorecards.

The dashboard serves as a management tool for CATSA's management team in monitoring performance and setting the strategic direction and priorities of the organization. The corporate performance scorecards provide key performance indicator results for CATSA's mandated activities and ongoing corporate activities. In order to provide an overall view of performance and trending for each mandated and corporate activity reported on, results are rolled up and aggregated by way of indexing. This standard approach to indexing methodology allows for separate performance measures to be consolidated into a single indicator.

In each quarter, data was collected and analyzed, performance baselines and targets were set, and results were measured, evaluated and reported on in internal performance reports and the quarterly corporate dashboard package. CATSA's annualized corporate performance results are presented in the tables on pages 32 and 33.

Measures and results associated with PBS and HBS effectiveness are of a sensitive nature and therefore cannot be disclosed for security reasons.

Key performance indicators for RAIC and NPS for effectiveness, efficiency, and consistency are currently in development. As RAIC and NPS do not have a direct impact on passengers, CATSA is not developing key performance indicators to measure "In the Interest of the Travelling Public" for these two programs.



*Screening Officer Saida.*

## PBS RESULTS

### PBS – Effectiveness

Given the sensitivity of this measure and its associated results, they cannot be included in a public document such as the Annual Report.

### PBS – Efficiency

Performance measure	Target	2008/09 Results	2009/10 Results	2010/11 Results	Comments
<b>Screening Officer Attrition Levels</b>	20.0%	N/A	23.5%	15.0%	Annual attrition levels have progressively decreased since 2008/09, from 26.4% to 15.0% in 2010/11. Calgary attrition levels remain the highest; however a steady decrease has been observed throughout the year.

*Definition:* The % of Screening Officers at the eight busiest airports who were terminated, laid off, resigned, died, retired or were transferred. The results are not broken down for PBS only but encompass all programs (PBS, HBS, NPS).

<b>PBS Throughput</b>	120	N/A	N/A	124*	*Newly introduced methodology to measure this KPI. Result shown represents performance in Q4 2010/11. This metric was introduced to allow a comparison between CATSA and other international counterparts. CATSA has made throughput a key corporate objective following the CATSA Review 2010. As of Q4, recommendations from that review were already being implemented to increase passenger throughput at PBS.
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*Definition:* The number of passengers screened per hour per lane at the eight busiest airports' PBS checkpoints during busy periods.

### PBS – Consistency

Performance measure	Target	2008/09 Results	2009/10 Results	2010/11 Results	Comments
<b>Security Screening Compliance</b>	98.0%	N/A	98.5%	99.1%	Target for this indicator was raised to 98% in 2010/11 from 95% in 2009/10. Compliance results have seen a continued increase this year and remain above target.

*Definition:* The results of evaluation by Oversight Officers of screening officer procedural compliance to security screening SOPs at the eight busiest airports, including passenger security and carry-on baggage security.

<b>Screening Officer Recertification</b>	90.0%	N/A	86.3%	95.8%	The positive increase can be attributed to the first full year of the Recurrent Learning and Re-certification Program which requires Screening Officers to conduct refresher training throughout the year.
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*Definition:* The % of Screening Officers at the eight busiest airports who passed PBS recertification tests and achieved all nine endorsements.

**Note:** Failing just one endorsement counts as a recertification failure.

### PBS – In the Public Interest

Performance measure	Target	2008/09 Results	2009/10 Results	2010/11 Results	Comments
<b>Confidence in Security Screening – Passenger Survey</b>	75.0%	N/A	73.0%	68.0%	Confidence in security screening is down from 2009/10. Top unprompted drivers of low confidence included the belief that there was a lack of consistency across the country. <b>Note:</b> This indicator represents results from the four busiest airports. *Annual value based on Q3 and Q4 only as no data is available for Q1 and Q2.

*Definition:* The % of passengers who express high confidence in CATSA security screening. Calculated from results of completed surveys at select busiest airports. High confidence is defined as answering 5, 6, or 7 on a 7 point scale survey questionnaire.

<b>Satisfaction with Overall Screening Experience – Passenger Survey</b>	85.0%	N/A	82.5%	80.0%	There has been a marginal decrease in overall satisfaction with screening, in part because negative media attention of certain security measures in the United States has influenced travellers' attitudes in both countries. Following the results of the CATSA Review 2010, CATSA has made it a corporate priority to implement improvements to better facilitate passengers through the screening process. <b>Note:</b> This indicator represents results from the four busiest airports. *Annual value based on Q3 and Q4 only as no data is available for Q1 and Q2.
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*Definition:* The % of passengers surveyed who express satisfaction with their overall experience with security screening at select busiest airports.

<b>Customer Service</b>	98.0%	N/A	97.0%	97.0%	In 2010/11, CATSA increased the target from 95% to 98%, reflected the importance of customer service in ensuring passenger satisfaction and acceptance of screening procedures.
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*Definition:* Results of evaluation by Oversight Officers of screening officer procedural compliance to customer service-related SOPs at the eight busiest airports, including professionalism (SO appearance and SO conduct) and communication (bilingual active offer and signage, interaction with passengers).

<b>Passenger Complaints Closed in &lt;30 Days</b>	90.0%	N/A	83.6%	80.3%	National media coverage of high profile events, such as "National Opt-Out Day" in November 2010, led to an increase in the number of complaints and delays in the time to process them.
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*Definition:* The % of passenger complaints received each quarter at the eight busiest airports that are closed within 30 calendar days of being received.

## HBS RESULTS

### HBS – Effectiveness

Given the sensitivity of this measure and its associated results, they cannot be included in a public document such as the Annual Report.

### HBS – Efficiency

Performance measure	Target	2008/09 Results	2009/10 Results	2010/11 Results	Comments
Screening Officer Attrition Levels	20.0%	26.4%	23.5%	15.0%	Annual attrition levels have progressively decreased since 2008/09, from 26.4% to 15.0% in 2010/11. Calgary attrition levels remain the highest; however a steady decrease has been observed throughout the year.

*Definition:* The % of Screening Officers at the eight busiest airports who were terminated, laid off, resigned, died, retired or were transferred. The results are not restricted to PBS, encompasses all the data pertaining to PBS and HBS.

### HBS – Consistency

Performance measure	Target	2008/09 Results	2009/10 Results	2010/11 Results	Comments
Screening Officer Re-certification	90.0%	N/A	94.8%	93.5%	Results are consistent with the target and reflect the high degree of experience and skill of HBS-certified Screening Officers.

*Definition:* The % of Screening Officers at the eight busiest airports who took HBS recertification tests and passed for explosives detection X-ray and computed tomography X-ray equipment.

### HBS – In the Public Interest

Performance measure	Target	2008/09 Results	2009/10 Results	2010/11 Results	Comments
Confidence in Security Screening – Passenger Survey	75.0%	N/A	73.0%	68.0%	Confidence in security screening is down from 2009/10. <b>Note:</b> This indicator represents results from the four busiest airports. *Annual value based on Q3 and Q4 only as no data is available for Q1 and Q2.

*Definition:* The % of passengers who express high confidence in CATSA security screening. Calculated from results of completed surveys at select busiest airports. High confidence is defined as answering 5, 6, or 7 on a 7 point scale survey questionnaire.



From left to right: Screening Officers Melissa and Brent at HBS.

# Reporting on Results

CATSA is responsible for four major mandated activities, described in the “*What We Do*” section. We report on our activities and initiatives, and performance is measured in relationship to the degree to which it can we deliver **effective, efficient** and **consistent** screening that is in the **interest of the travelling public**.

Funding announced in Budget 2010 allowed CATSA to focus on delivering its mandated activities in a manner that is effective, efficient, consistent and in the interest of the travelling public. The following section will provide an overview of CATSA’s progress and achievements for 2010/11 against its PBS, HBS, NPS and RAIC activities.

Please note that this list is not exhaustive of all corporate and operational initiatives for the fiscal year 2010/11.

Mandated Activity	Performance Summary	Performance Highlights
<b>Pre-Board Screening (PBS)</b>	CATSA’s PBS activities for 2010/11 included the adoption of new initiatives to facilitate the screening process for air travellers, identified and implemented efficiencies in PBS operations, ongoing training of the Screening Officer workforce, and investment in new and proven PBS technologies to ensure continued compatibility with international partners.	<p>PBS activities and initiatives for 2010/11 included:</p> <ul style="list-style-type: none"> <li>• initiation of the Airport Screening Services Agreement Request for Proposals (ASSA RFP) to be implemented in 2011/12;</li> <li>• deployment of Full-Body Scanners at designated airports with US-bound flights;</li> <li>• introduction of a Trusted Traveller/NEXUS pilot project at select airports;</li> <li>• deployment of Boarding Pass Security System – a boarding pass validation and data collection tool – at Vancouver, Calgary, Edmonton, Toronto, Ottawa, Montréal and Halifax airports;</li> <li>• identification and implementation of efficiencies and improvements in PBS operations;</li> <li>• introduction of an Operations communications tool to disseminate messages and bulletins to the Screening Officer workforce;</li> <li>• introduction of a pilot project allowing the use of security tamper-evident bags for carry-on baggage for in-bound passengers travelling through Toronto and Montréal International Airports with duty-free purchases;</li> <li>• initiation of a Passenger Behaviour Observation Program at one of Canada’s busiest airports;</li> <li>• investment in and deployment of vapour detection technology, explosives detection equipment and multi-view X-rays to maintain PBS technological compatibility with international partners;</li> <li>• continuation of a long-term passenger campaign that assists air travellers in being better prepared when they arrive at PBS; and</li> <li>• establishment of memoranda of understanding with the CBSA and various policing organizations that will allow CATSA to use law enforcement personnel for security screening purposes in case of emergencies, such as the events of December 25, 2009.</li> </ul>



*CATSA's President and CEO, Kevin McGarr, speaking at the 2010 Annual Public Meeting in Montréal.*

Mandated Activity	Performance Summary	Performance Highlights
<b>Hold-Baggage Screening (HBS)</b>	This mandated activity includes screening operations at HBS; continued re-capitalization of baggage screening technology; and managing capacity for contingency operations.	<p>CATSA's HBS activities for 2010/11 included:</p> <ul style="list-style-type: none"> <li>• continuation of deployment, operations and maintenance of HBS equipment at designated airports;</li> <li>• identification and implementation of efficiencies and improvements in HBS operations;</li> <li>• provision of HBS system design consultative services to airport staff and system vendors, to ensure future systems meet all of CATSA's stringent security screening requirements. Some examples of future airport expansion projects that are currently in advanced design are Calgary (Transborder), Edmonton (Transborder), Montréal (Domestic), Charlottetown, Fort McMurray, and Goose Bay;</li> <li>• integration and installation of HBS equipment at various airports, including the new air terminal building for the Winnipeg International Airport;</li> <li>• implementation of HBS in the Vancouver Link Building to address a shortfall of baggage screening capacity; and</li> <li>• purchase and delivery of HBS testing simulators.</li> </ul>
<b>Non-Passenger Screening (NPS)</b>	This mandated activity consists of the random screening of non-passengers accessing restricted areas of an airport's terminal building. NPS minimizes the risk of non-passengers bringing prohibited items through to restricted areas, resulting in a more secure environment for the travelling public and non-passengers working in the air terminal building.	CATSA completed construction of a vehicle search checkpoint at Vancouver International Airport and launched a vehicle search pilot project in consultation with Transport Canada. The objective of the pilot was to examine the feasibility of expanding NPS beyond the air terminal building.
<b>Restricted Area Identity Card (RAIC)</b>	Having completed the life-cycle replacement of the system infrastructure, verified the security credential databases and fully developed the RAIC application, CATSA continues to maintain the existing biometric restricted area identification card program.	CATSA continued to evaluate practical applications of biometric reader units that can be deployed in a variety of operational environments.



# Looking Ahead

*While 2011/12 is expected to bring many challenges for the organization, it will also present opportunities that will help shape CATSA's future. With a renewed vision, CATSA is committed to excelling as a world leader in air transport security through our service to passengers, our people and our partnerships.*

In the coming year, CATSA will remain focused on delivering its action plan that supports the findings of the CATSA Review 2010. We will continue to work with our partners and stakeholders to better prepare passengers for the air travel experience. We will focus on measuring our throughput and reporting on our progress on a regular basis, including working with our screening contractors to develop proactive plans that will help us achieve our targets. CATSA will also implement the efficiencies and improvements in our operations and training as identified by the 2009 Strategic Review.

In addition to implementing these operational efficiencies, CATSA will work to improve its corporate governance through strong and clearer roles for key stakeholders and through a strategic planning forum that includes the establishment of agreements with clearly defined service levels. CATSA will also be looking to increase operational and management efficiencies through the establishment of its new long-term screening contracts.

The new contracts will be awarded in August 2011, with a two-month transition period before they take effect on November 1, 2011. Under the new contracts, CATSA plans to create strong, productive relationships with successful bidders, which is fundamental to aviation security in Canada. These new relationships will be based on performance and will help CATSA better balance aviation security with assisting passengers through the screening process. This will ensure that the organization provides services that are efficient, effective and consistent while making the best possible use of resources.

At the same time, as CATSA changes its expectations of screening contractors, there is recognition that there must be corresponding changes in CATSA's corporate culture. This includes becoming a better client, shifting focus from headquarters to the regions and to outcome-based performance measurement. Continuing with its Transformation Strategy, emphasis will be placed on identifying the desired organizational behaviours for CATSA, and to develop the competencies and action plans to promote these desired behaviours.

Additionally, over the coming years, CATSA will begin the life-cycle management of its HBS system. This includes phasing out non-CT technology and aligning our HBS system with those of the United States and the European Union. It is important that we continue working to maintain and add to international standards and best practices, while working with our international counterparts to ensure the best and safest experience for air travellers.

Taken together, these initiatives will help CATSA ensure that our screening programs continue to be delivered effectively, efficiently, consistently and in the interest of the travelling public.

# Corporate Governance

***The Board of Directors worked closely with Senior Management to set the strategic direction of the organization through this important period of organizational transition. In the coming years, the Board of Directors will continue to provide oversight and guidance to ensure that CATSA remains a high-performing organization.***

CATSA is accountable to Parliament through the Minister of Transport, Infrastructure and Communities and is governed by a Board of Directors that is appointed by the Governor in Council. Of the 11 directors, two are nominees of the airline industry and two are nominees of the airport industry. All directors are independent of management. The Board has a balanced mix of skills and experience needed for its stewardship role.

The Board has a number of broad responsibilities, including the following mandatory obligations:

- making, amending or repealing corporate by-laws (FAA, s.114);
- approving CATSA's strategic direction;
- ensuring measures are in place to safeguard CATSA's resources;
- monitoring corporate performance;
- reporting to the Crown;
- hiring the President and CEO, approving his/her objectives for the year and evaluating his/her performance (CATSA Act, s.17);

- ensuring that the principal risks of CATSA's business have been identified and that appropriate systems to manage these risks have been implemented; and
- reviewing and approving management's succession plan for Senior Management.

Throughout 2010/11, the Board worked closely with management and provided oversight and advice during the CATSA Review 2010 and the preparation of the ASSA RFP.

The Board also continued to provide oversight and advice to management in the continued development of a corporate performance dashboard and future direction with regard to the organization's operations and technologies.

The Board continues to focus on the enhancement of CATSA's corporate governance practices and ensures appropriately timed reviews of bylaws, policies, Board and Committee guidelines and Committee terms of reference are carried out. Through regular Corporate Secretary updates, they continue to remain informed on governance best practices that impact the management of Crown corporations.

Some other areas in which the Board has been proactive are as follows:

- i. comprehensive review of the *Code of Conduct and Ethical Behaviour for Directors* to align more closely to the *Conflict of Interest Act*;
- ii. new Director Orientation Program;
- iii. implementation of a consent agenda format to allow the Board and its Committees to focus on more important strategic matters;
- iv. proactive disclosure of travel and hospitality expenses of all directors on CATSA's Web site; and
- v. every year, directors affirm that they have complied with the *Code of Conduct and Ethical Behaviour for Directors*. This Code is also made publicly available on CATSA's Web site.

The Director, Internal Audit, reports directly to the Audit Committee, thus reinforcing the independence of this function.

The Auditor General of Canada is our external auditor. Representatives from the Office of the Auditor General attend each Audit Committee meeting.

The Board discharges many of its responsibilities through four standing committees. The committees are independent of management. Each Director serves on at least two committees.

**The Audit Committee** assists the Board in fulfilling its oversight responsibilities with respect to financial reporting, continuous disclosure practices, risk management, internal controls and the audit process.

**The Corporate Governance and Human Resources Committee** assists the Board in fulfilling its oversight responsibilities with respect to governance issues including areas such as: human resources and compensation, management succession plans, oversight of policies and processes relating to employee business conduct and ethical behaviour, recommendations and evaluation of annual objectives for the President and CEO and any other matter assigned to it by the Board.

**The Strategy Committee** assists the Board in fulfilling its oversight responsibilities of matters relating to or affecting CATSA's strategic direction in accordance with its legislated mandate and provides oversight and advice to management in the development and implementation of all strategic initiatives, including the development of its performance management framework.

**The Pension Committee** assists the Board in its oversight responsibilities with respect to the management and administration of the employee pension plans.

## Board Remuneration, Expenses, and Meeting Attendance

Directors and the Chair are paid an annual retainer and per diem, which are set by the Governor in Council pursuant to the *Financial Administration Act*. They are also reimbursed for all reasonable out-of-pocket expenses, including travel, accommodation and meals while performing their duties. These expenses are posted quarterly on CATSA's Web site.

Total remuneration (annual retainer and per diems) paid to all Directors and the Chair was \$248,655.00 in 2010/11, compared to \$251,370.00 in 2009/10.

Board Member	Board Retainer (A)	Per Diems (B)	Total Remuneration (A+B)
D. Ian Glen (Chair)	\$ 10,800.00	\$ 37,800.00	\$ 48,600.00
Michael D. Campbell	\$ 5,400.00	\$ 15,990.00	\$ 21,390.00
William Deluce	\$ 5,400.00	\$ 12,090.00	\$ 17,490.00
Gaetane C. Hains	\$ 5,400.00	\$ 14,235.00	\$ 19,635.00
Denis Jacob <sup>1</sup>	\$ 5,400.00	\$ 16,575.00	\$ 21,975.00
John Kaldewey <sup>2</sup>	\$ 5,400.00	\$ 15,990.00	\$ 21,390.00
Dora Koop	\$ 5,400.00	\$ 12,870.00	\$ 18,270.00
Gene McLean	\$ 5,400.00	\$ 12,870.00	\$ 18,270.00
H. Glenn Rainbird <sup>3</sup>	\$ 5,400.00	\$ 16,380.00	\$ 21,780.00
Donald K. Robinson <sup>4</sup>	\$ 5,400.00	\$ 15,405.00	\$ 20,805.00
Mike Shaikh	\$ 5,400.00	\$ 13,650.00	\$ 19,050.00
<b>TOTALS</b>	<b>\$ 64,800.00</b>	<b>\$ 183,855.00</b>	<b>\$ 248,655.00</b>

<sup>1</sup> Chair of Strategy Committee

<sup>2</sup> Chair of Audit Committee

<sup>3</sup> Chair of Corporate Governance and Human Resources Committee

<sup>4</sup> Chair of Pension Committee



## Board and Committees Attendance

Board Member	Board Meetings <sup>1</sup>	Committees <sup>1</sup>			
		Corporate Governance and Human Resources	Audit	Pension	Strategy
D. Ian Glen <sup>2</sup>	13/14	6/6	5/5	5/5	9/9
Michal D. Campbell	14/14		5/5		9/9
William Deluce	13/14	6/6	3/5	5/5	2/9
Gaetane C. Hains	13/14	6/6			
Denis Jacob <sup>3</sup>	14/14		5/5		9/9
John Kaldeway <sup>4</sup>	13/14		5/5		8/9
Dora Koop	14/14	6/6		5/5	9/9
Gene McLean	14/14	6/6			
H. Glenn Rainbird <sup>5</sup>	12/14			5/5	7/9
Donald K. Robinson <sup>6</sup>	11/14	4/6	2/5		6/9
Mike Shaikh	11/14		5/5		

<sup>1</sup> Board and committee meeting attendance is based on the number of meetings attended out of the total number of meetings that occurred while the Director was a member of the Board and/or committee.

<sup>2</sup> Member of all Board committees

<sup>3</sup> Chair of the Strategy Committee

<sup>4</sup> Chair of the Audit Committee

<sup>5</sup> Chair of the Pension Committee

<sup>6</sup> Chair of the Corporate Governance and Human Resources Committee

*Red: indicates that the individual became a new member of the committee as of September 2010.*

## CATSA's Second Annual Public Meeting

On December 7, 2010, CATSA held its second Annual Public Meeting in Montréal, Quebec. Despite the heavy snowfall in Montréal, the meeting saw a large number of stakeholders and representatives from both the aviation and security industries.

The theme of this year's meeting was "Technology – Moving Forward." CATSA's Vice-President and Chief Technology Officer, Mike Saunders, and members of CATSA's Technology Branch, coordinated various demonstrations of some PBS and HBS technologies currently deployed at CATSA airports across Canada.

The Chair of CATSA's Board of Directors, D. Ian Glen, and Kevin McGarr, CATSA's President and CEO, reported on CATSA's performance over the past fiscal year, as well as the organization's plans and priorities moving forward.



*CATSA's Chair of the Board of Directors, Mr. Ian Glen, speaking with Screening Officers during a technology demonstration at the 2010 Annual Public Meeting in Montréal.*

In keeping with the guidelines for Crown corporations as set by the Treasury Board Secretariat, Annual Public Meetings provide CATSA with the opportunity to engage and collaborate with stakeholders and the larger Canadian public in a transparent way.

## Eco-Friendly Disposal of Surplus Material

As stated under the *CATSA Act*, CATSA, as a Crown corporation, has the responsibility to dispose of equipment that has reached the end of its useful life. Since most of our equipment is specialized and has limited use in other industries, disposal is often the only option left for material identified as surplus. In some cases, the environmentally friendly and safe disposal of equipment – through a third-party service provider or agencies certified in the disposal of hazardous materials – may result in costs incurred by CATSA. An asset retirement obligation has been recorded to address this expense as in prior years.

To ensure that surplus material potentially harmful to the environment is disposed of in accordance with environmental laws and regulations – such as the *Workplace Hazardous Material Information System and Occupational Health and Safety Act* – CATSA developed a policy on disposal of surplus assets and associated guidelines to outline the disposal process and plan to properly dispose of hazardous material. The policy and guidelines came into effect in 2010/11, as illustrated in the “Computers for Schools Programs” on page 29.

## Report on CATSA’s *Official Languages Act* Requirements

CATSA is responsible for ensuring that bilingual services are provided at screening checkpoints in airports where it has linguistic obligations. CATSA is committed to serve travellers in the official language of their choice, and works in partnership with its screening contractors to continue to make enhancements on this front.

In accordance with the *Official Languages Act*, CATSA provides communications and services to the public in both official languages at airports serving one million or more travellers annually and at airports where demand for services in a minority language is at least five percent of overall demand.

As part of its ongoing training on excellence in customer service, CATSA regularly reminds Screening Officers of their role in ensuring that the quality of their service is of capital importance. CATSA also stresses that greeting travellers in the two official languages of Canada, and respecting that choice, is an integral part of that service quality.

CATSA has several programs which include specific elements to help it meet its official languages requirements:

- **Operations Performance Oversight Program:** Oversight Officers monitor screening operations to ensure compliance with *Standard Operating Procedures* (SOPs) and regulations. Service in both official languages is one of the elements being monitored.
- **Shift Briefing Program:** Screening Officer briefings include regular reminders of our official languages obligations and the need to follow SOPs to ensure travellers are served in the official language of their choice.
- **Performance Payment Program:** Established for screening contractors, this program includes criteria for meeting official languages requirements.

CATSA also works to better measure and adjust its performance concerning language of work. In 2010/11, CATSA initiated a review of its current *Official Languages Policy* and procedures. As part of this review, CATSA is re-examining how it establishes linguistic profiles and how language proficiency levels of bilingual positions are assigned. CATSA is also re-evaluating its second language training program. This will help streamline its approach towards language of work rights and obligations and promote a work environment more conducive to the use of both official languages.

Again this year, CATSA was a proud supporter of *Les Rendez-vous de la Francophonie* – a national celebration of the vitality of Francophone communities across the country. As part of these festivities, CATSA also celebrated the *Journée internationale de la Francophonie*. Through messages and activities organized during this period, CATSA provided employees with an opportunity to demonstrate respect and fairness – two of CATSA's core values – by consistently encouraging one another to use the official language that is comfortable to them in the workplace.

CATSA is committed to meeting its obligations with respect to the *Official Languages Act* and play an active role in ensuring that official languages are an integral part of the strategic planning of our organization. CATSA is proud of its accomplishments in the area of official languages.

## **Report on Access to Information and Privacy Act Requests**

CATSA is subject to both the *Access to Information Act* and the *Privacy Act* and strives to meet both the spirit and the legal requirements of this legislation. From April 1, 2010 to March 31, 2011, CATSA received 73 new requests under the *Access to Information Act*. When added to the 18 outstanding requests from the previous fiscal year, CATSA was responsible for processing a total of 91 requests. Of these requests, 82 were completed within the fiscal year and 9 were carried forward to 2011/12.

In addition, from April 1, 2010 to March 31, 2011, CATSA received 16 *Access to Information Act* consultations from other federal departments, 15 of which were completed within the fiscal year and one was carried over to 2011/12.

For the same reporting period, CATSA received 11 new requests under the *Privacy Act*. All of these requests were completed and none was carried over to the next fiscal year.

## **Employment Equity**

CATSA's Senior Management has made a commitment to identify and eliminate barriers to equal employment where they might exist. Where possible, positive policies and programs have been put in place to make reasonable accommodations for its employees.

CATSA has developed a comprehensive employment equity plan to minimize the gaps of under representation of designated groups. It holds bilateral consultations between management and employee representatives pertaining to the organization's employment equity matters at least once a year. In addition, CATSA produces and submits a report on its fulfillment of the *Employment Equity Act* to the Department of Human Resources and Skills Development Canada on June 1 of every calendar year, as well as an annual report on its fulfillment of the *Canadian Multiculturalism Act* through Citizenship and Immigration Canada, reported around mid-June of every fiscal year.

CATSA's Champion of Multiculturalism and Diversity, Renée Légaré, Senior Vice-President, People, continued to speak on behalf of CATSA on all matters pertaining to employment equity and diversity. CATSA had representation at two conferences this year hosted by the Government's Multiculturalism Champions Network, chaired by Citizenship and Immigration Canada. The two conferences, in September 2010 and March 2011 gave CATSA the opportunity to share its practices, challenges and successes as they relate to multiculturalism and workplace diversity with other federal departments, agencies and Crown corporations.

CATSA's Senior Management continues to instill a corporate culture that welcomes and strongly values employee diversity. The organization promotes a principle of fairness where differences are respected and strives to make a positive work environment. CATSA, as a unique federal Crown corporation, recognizes the changing diversity of the Canadian workforce and has championed the notion of inclusiveness and diversity. As such, it recognizes that inclusiveness fosters interaction, communication, knowledge-sharing and mutual respect.

# Management Discussion and Analysis



## PART 1 – Corporate Overview

CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada, in order to provide effective, efficient and consistent security screening in the interest of the travelling public at 89 designated airports across Canada.

To achieve this, CATSA is mandated to conduct screening services in the following four areas:

- Pre-Board Screening (PBS): the screening of passengers, their carry-on baggage and their personal belongings;
- Hold-Baggage Screening (HBS): the screening of checked baggage;
- Non-Passenger Screening (NPS): the screening of non-passengers on a random basis, pursuant to direction from the Minister of Transport, Infrastructure and Communities; and
- Restricted Area Identity Card (RAIC): the administration of access control to airport restricted areas through biometric identifiers.

In meeting this mandate, CATSA strives to maintain compatibility with its key international partners, both in terms of technologies and security screening processes. CATSA delivers on this commitment in accordance with the resources assigned to it by the Government of Canada and as approved by Parliament.

CATSA's key priorities include maintaining its current level of services in the face of evolving threats by continuously enhancing screening efficiency and effectiveness through the deployment of new and proven screening technologies. In addition, CATSA will continue to create a culture of operational excellence by focusing on the ongoing improvement of screening methods and processes, and the transformation of its corporate culture and Screening Officer workforce.

With over 500 employees who support the operations of over 6,800 Screening Officers, CATSA now screens over 51 million passengers annually.

### Legislative Framework

CATSA was established as a Crown corporation pursuant to the *Canadian Air Transport Security Authority Act (CATSA Act)*. CATSA is fully funded by parliamentary appropriations from the federal Consolidated Revenue Fund and remains accountable to Parliament through the Minister of Transport, Infrastructure and Communities.

In Canada, the federal government is responsible for the security of the aviation sector, with Transport Canada serving as the lead department for Canada's aviation security program. As CATSA's regulator, Transport Canada is responsible for developing, administering and overseeing aviation security policies, legislation, programs and procedures, pursuant to standards established by the International Civil Aviation Organization.

CATSA is subject to domestic legislation, regulations and procedures in the way that it conducts its business and screening activities. These Acts and Regulations include: the *CATSA Act*; the *Financial Administration Act*; the *Aeronautics Act*; *Canadian Aviation Security Regulations*; the *CATSA Aerodrome Designation Regulations*; as well as the *Security Screening Orders* and other standard operating procedures.

## PART 2 – Operating Environment

As a Crown corporation with a statutory responsibility for aviation security screening nationwide, CATSA's operations are greatly affected by events and trends occurring both domestically and internationally. In order to successfully execute its mandate and carry out its operations diligently, CATSA must continuously assess whether resources available are sufficient to effectively address all relevant strategic issues. This assessment includes anticipating internal and external trends that have a potential to impact CATSA's operations in order to identify key risks.

### Government Funding

Budget 2010 provided CATSA with long-term funding totalling \$1.5 billion (on an accrual basis) over a five-year planning period ending in 2014/15. It also served to increase its ongoing reference level starting in 2015/16 and included a permanent allocation for capital expenditures.

Total approved funding for 2010/11 amounted to \$595.1 million which allowed CATSA to maintain screening capacities similar to the prior year and continue the life-cycle management of its PBS equipment with multi-view technology and the deployment of Full-Body Scanners. In addition, the long-term funding commitment allowed CATSA to initiate a competitive process for its Airport Screening Services Agreements (ASSAs) in the current year.

CATSA's total parliamentary appropriations used for operating and capital expenditures for the period of 2002/03 to 2010/11 are summarized below:

Parliamentary Appropriations Used					
(Millions of dollars)	Six-year total 2002/03–2007/08	2008/09	2009/10	2010/11	Total
Operating	\$ 1,699.9	\$ 378.3	\$ 472.3	\$ 512.3	\$ 3,062.8
Capital	691.1	48.6	115.9	54.9	910.5
<b>Total</b>	<b>\$ 2,391.0</b>	<b>\$ 426.9</b>	<b>\$ 588.2</b>	<b>\$ 567.2</b>	<b>\$ 3,973.3</b>

Budget 2010 provided long-term funding which represents a significant change over prior years when CATSA's ongoing reference levels fell well below its annual operating and capital funding requirements. However, the annual reference level of funding for future years does not accommodate inflation and growth in passenger volumes.

CATSA continues to work with the Government of Canada in order to address these long-term funding pressures.

### Security Threat Environment

Domestic and international intelligence suggests civil aviation remains a favoured target of terrorist attacks and that Canada continues to be on active terrorist target lists. The most significant threats to civil aviation in Canada continue to be associated with a passenger or non-passenger attempting to place an improvised explosive device (IED) on board a passenger plane.

This was evidenced by the attempted attack on December 25, 2009, where an individual attempted to detonate an IED on board an aircraft in Canadian airspace destined for Detroit. In response to this incident, Transport Canada introduced enhanced security measures for all flights to the US (US Security Measures). Additional focus was placed on staffing and training of Screening Officers to carry out these new measures. Although the measures were subsequently relaxed in the current year, their implementation resulted in incremental costs approximating \$31.0 million (\$27.0 million operating and \$4.0 million capital) for 2010/11.

Similar threats were again highlighted by the October 29, 2010 incident where two suspicious packages originating in Yemen were found in the United Kingdom and United Arab Emirates. In response, enhanced security measures were implemented in Canada. Although this incident did not have the same operational and financial impact on CATSA as the December 2009 incident, such events emphasize the continually evolving nature of these threats to Canada's aviation system and how terrorists continue to adapt their weapons, targets, or means of access to known vulnerabilities.



As a result of these continuously evolving security threats, CATSA must position itself to ensure it is capable of responding immediately to any unanticipated threats and/or regulatory amendments. As evidenced by the impact of the December 25, 2009 incident, CATSA's operational resources and costs may be significantly impacted in the event unanticipated threats and/or regulatory amendments materialize. Such an impact demonstrates the need for CATSA to have the resources and capacity (financial or human) that will allow the organization to respond to new requirements or exceptional events.

## **Service Delivery**

### *Service delivery model*

CATSA's service delivery model of third-party screening contractors provides a screening workforce that is unique in the world of aviation security. The third-party model was initially chosen due to, amongst other things, cost considerations and the existing contracts between airlines and screening contractors.

The organization had not initiated a new competitive process for its screening contracts in the years since CATSA's inception due to the uncertainty surrounding CATSA's long-term funding. Consequently, CATSA has had to work within the confines of existing contracts which has limited its ability to enhance the service delivery model.

With the long-term funding received from Budget 2010, CATSA launched a Request for Proposal (RFP) process in January 2011 for airport screening services across Canada. The RFP represents an opportunity for CATSA to better define its roles and responsibilities with its screening contractors and focus on outcomes and enhanced planning in order to maximize benefits and minimize costs.

CATSA is seeking to spend resources more efficiently over time without compromising aviation security or the uniformity of the services it offers. This is in line with CATSA's own shift toward outcome-focused management, with strong planning and fiscal accountability.

### *Industry partners and stakeholders*

In executing its mandate, CATSA works closely with its various stakeholders including Transport Canada, its screening contractors, other government organizations, law enforcement authorities and the aviation industry. Within the aviation industry, key partners and stakeholders include airport authorities, air carriers, industry associations, various elements of the travel and tourism industries, and international security partners such as the US and European Union. The very nature of CATSA's operations and its day-to-day success in delivering its security services is contingent upon its relationships with these partners and stakeholders.

As a result, CATSA remains committed to working with its partners and stakeholders in order to provide the best possible air travel experience for passengers travelling through Canada's designated airports.

### *Customer-focused security services*

CATSA works closely with its screening contractors and stakeholders to contribute to the air travel experience. As airlines rely even more on the use of technology (e.g., self check-ins, electronic boarding passes, etc.), CATSA's screening checkpoints are becoming the first point of contact for the travelling public. Accordingly, CATSA will continue to balance security with customer service by focusing on improving passenger facilitation through the screening process.

In addition, CATSA is committed to informing the travelling public of changes to, or the introduction of, new screening technologies and/or processes, while also respecting their privacy and addressing concerns they may have towards the screening process.

## CATSA Review 2010

As announced by the Minister of Transport, Infrastructure and Communities on February 25, 2010, CATSA underwent a review of its spending, efficiency and structure in 2010 to ensure that the organization is fulfilling its mandate effectively. This review included public and stakeholder participation and examined CATSA's governance model, in addition to related aviation security issues.

As part of this review, CATSA was able to identify a number of efficiencies, including the reconfiguration of PBS checkpoints and the streamlining of PBS processes. On average, these efficiencies are expected to increase passenger throughput, which will serve to partially address the long-term funding constraints associated with inflation and passenger growth.

The review also included developing ideas for investing in new generation HBS equipment to maintain international equivalency and continue to screen checked baggage efficiently.

CATSA has begun to implement the findings of its review.

## International Partners

As a key member within the international civil aviation industry, regulatory changes by major security partners, such as the US and European Union, can impact CATSA. To the extent regulatory changes are implemented by our international partners, there becomes pressure for Canada to follow suit in order to minimize the disruption on passengers flying internationally.

CATSA continues to track compatibility with its international partners; however, reduced operating funding is expected to challenge its ability to maintain compatibility, particularly with regards to HBS and NPS.

## Air India Report

On December 7, 2010, the Government released the *Air India Inquiry Action Plan*, the Government's response to the Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182. This plan is a roadmap for the Government's ongoing action to ensure the safety and security of all Canadians.

## Regulatory Developments

### *International Financial Reporting Standards*

In December 2009, the Public Sector Accounting Board released an amendment to the *Introduction to Public Sector Accounting Standards* which clarifies the source of generally accepted accounting principles (GAAP) for government organizations like CATSA. Classified as an Other Government Organization, CATSA was required to assess whether International Financial Reporting Standards (IFRS) are the most appropriate basis of accounting for the organization or whether the Public Sector Accounting Handbook should be adopted. After conducting a thorough review, management concluded that IFRS is the most appropriate basis of accounting for the organization. The decision to transition to IFRS was approved by CATSA's Board of Directors. CATSA will prepare its first annual IFRS financial statements for the year ending March 31, 2012, including comparative figures for 2011.

CATSA's IFRS transition plan consists of three phases: scoping, development and implementation. The scoping and development phases included the establishment of a formal project governance structure, and the preparation of detailed assessments outlining the impact of the transition to IFRS on accounting policies, financial reporting, business processes, information systems, internal controls and training requirements. CATSA is completing the implementation phase, which includes finalizing changes made to apply the new standards.

Throughout CATSA's 2011/12 fiscal year, the International Accounting Standards Board is scheduled to release several revised standards relevant to CATSA, including employee benefits, leases, and presentation of financial statements. Management will continue to monitor all proposed and continuing projects, giving consideration to any changes expected to impact CATSA.

The following balance sheet shows the adjustments management expects to make on CATSA's date of transition to IFRS. These adjustments are unaudited and some are subject to ongoing review. The line items are presented in accordance with CATSA's current presentation under Canadian GAAP. Until a full set of annual financial statements are prepared under IFRS for the year ending March 31, 2012, management will not be able to precisely quantify all of the adjustments that will result from the transition to IFRS.

## Expected Adjustments to Balance Sheet at April 1, 2010

(Unaudited)

Thousands of Canadian Dollars

	Notes	April 1, 2010		
		Canadian GAAP	IFRS Adjustments	IFRS
<b>Assets</b>				
<b>Current</b>				
Cash		\$ 3,512		\$ 3,512
Accounts receivable		112,588		112,588
Inventories		19,695		19,695
Prepaid expenses		3,537		3,537
		<u>139,332</u>		<u>139,332</u>
<b>Employee future benefits</b>	a	11,468	(6,108)	5,360
<b>Property and equipment and intangible assets</b>				
Property and equipment	b,c	405,921	(1,208)	404,713
Intangible assets		11,369		11,369
		<u>417,290</u>	<u>(1,208)</u>	<u>416,082</u>
		<b>\$ 568,090</b>	<b>(7,316)</b>	<b>\$ 560,774</b>
<b>Liabilities and Equity</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		\$ 116,100		\$ 116,100
<b>Deferred lease inducement</b>		730		730
<b>Employee future benefits</b>	a	4,759	429	5,188
<b>Asset retirement obligations</b>	c	7,112	(542)	6,570
<b>Deferred capital funding</b>	b	414,983	(1,083)	413,900
		<u>543,684</u>	<u>(1,196)</u>	<u>542,488</u>
<b>Equity</b>				
Retained earnings	a,c	24,406	(6,120)	18,286
		<b>\$ 568,090</b>	<b>(7,316)</b>	<b>\$ 560,774</b>

The following table discusses the *IFRS 1, First-time Adoption of International Financial Reporting Standards* optional exemptions and accounting policy changes that are expected to have a significant impact on CATSA's financial statements as a result of transitioning to IFRS.

Note	Financial Statement Component	Effect of Transition to IFRS
a.	Employee Future Benefits	<p>IFRS 1 provides retrospective relief from applying <i>International Accounting Standard (IAS) 19, Employee Benefits</i> for the recognition of cumulative actuarial gains and losses at the date of transition. Actuarial gains and losses would have to be recalculated under IFRS from the inception of each defined benefit plan if the exemption was not taken. CATSA has elected to recognize cumulative actuarial gains and losses for all defined benefit plans determined under Canadian GAAP in retained earnings at April 1, 2010.</p> <p>IAS 19 allows an accounting policy choice for the recognition of actuarial gains and losses arising subsequent to the transition date. CATSA intends to recognize actuarial gains or losses immediately in other comprehensive income. Under Canadian GAAP, CATSA used the corridor method whereby actuarial gains and losses outside a 10 percent corridor were recognized in the statement of operations over the expected average remaining service period of active employees.</p> <p>In addition, IAS 19 requires that the defined benefit obligation and plan assets be measured with sufficient regularity such that the amounts recognized in the financial statements do not differ materially from what would be determined at the end of the reporting period. Under Canadian GAAP, CATSA measured the defined benefit obligation and plan assets on December 31, three months prior to the date of the financial statements. On transition to IFRS, CATSA will measure its defined benefit obligations and plan assets at March 31.</p> <p>Furthermore, IAS 19 requires that past service costs of defined benefit plans be expensed on a straight line basis until the benefits become vested. To the extent that benefits are already vested, past service costs should be expensed immediately. Under Canadian GAAP, past services costs are generally amortized on a straight-line basis over the expected average remaining service period of active employees. On transition to IFRS, CATSA will recognize all vested past services costs directly in equity.</p> <p><b>Expected impact on transition:</b> Employee benefit assets on April 1, 2010 will decrease by approximately \$6.1 million and employee benefit liabilities will increase by \$0.4 million. Equity at April 1, 2010 will decrease by approximately \$6.5 million.</p>
b.	Property and Equipment	<p>According to <i>IAS 16, Property, Plant and Equipment</i>, the depreciation of an asset begins when it is available for use. Under Canadian GAAP, CATSA recorded depreciation on certain assets when they were put into use. Consequently, CATSA will make adjustments to these asset values to reflect differences in depreciation start dates.</p> <p><b>Expected impact on transition:</b> Property and equipment and deferred capital funding at April 1, 2010 will decrease by approximately \$1.1 million.</p>
c.	Asset Retirement Obligations (referred to as decommissioning liabilities under IFRS)	<p>Under IFRS, adjustments to decommissioning liabilities are made each period for changes in the timing or amount of cash flows, changes in the discount rate and the unwinding of the discount. For Canadian GAAP, changes in discount rates alone do not result in an adjustment to the provision. Also, changes that decrease the liability are discounted using the discount rate applied upon initial recognition of the liability.</p> <p>CATSA has elected to apply the exemption from full retrospective treatment of decommissioning liabilities as allowed under IFRS 1. As such, CATSA has re-measured the liabilities under <i>IAS 37, Provisions, Contingent Liabilities and Contingent Assets</i> as at April 1, 2010, and estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose. CATSA used best estimates of historical risk-adjusted discount rates, and recalculated the depreciation and accumulated depreciation under IFRS up to April 1, 2010.</p> <p><b>Expected impact on transition:</b> Property and equipment and decommissioning liabilities at April 1, 2010 will decrease by approximately \$0.1 million and \$0.5 million, respectively. As a result, equity as at April 1, 2010 will increase by approximately \$0.4 million.</p>

## Quarterly financial reporting

Effective April 1, 2011, Crown corporations will be required by the Treasury Board of Canada Secretariat (TBS) to prepare quarterly financial reports that are to be made public within 60 days of the first three quarter-ends of each fiscal year. The quarterly financial reports will include:

- a narrative discussion outlining the quarterly financial results (quarter vs. quarter, year-to-date vs. year-to-date and year-to-date actuals vs. corporate plan), risks and significant changes in relation to operations, personnel and programs; and
- financial statements for the fiscal quarter and year-to-date, including comparative information for the preceding fiscal year.

The organization's first quarterly financial report prepared in accordance with this standard will be published for the three-month period ending June 30, 2011.

## PART 3 – Economic Environment

The global economy is recovering from the worst economic recession since the 1930's and its growth is expected to continue at a steady pace in the future. Canada's economic growth has been stronger than anticipated due to increases in business investment, exports and household expenditures. In addition, the economy continues to benefit from the government stimulus provided in recent years.

Real gross domestic product (GDP) in Canada grew at an annual rate of 3.3 percent in the fourth quarter of 2010 and is estimated to increase to 4.2 percent in the first quarter of 2011.<sup>2</sup> Although growth in Real GDP surpassed initial expectations, the Bank of Canada expects growth will moderate in future years as the particularly strong rebound in exports observed recently is unlikely to be sustained given ongoing competitiveness challenges, such as the persistent strength of the Canadian dollar. In addition, the economic stimulus measures introduced by the Government of Canada in past budgets are expected to expire in the short-term. As a result, the growth in Real GDP, on an average annual basis, is projected to grow by 2.9 percent in 2011 and 2.6 percent in 2012.<sup>3</sup>

Inflation has remained relatively constant in recent years; however, due to increasing energy prices, changes to certain provincial indirect tax policies and other geopolitical factors, it is expected to increase in the short-term to approximately 3 percent.<sup>4</sup>

As the economy continues its recovery, the Government of Canada has announced its intention of balancing the federal budget. The Government of Canada introduced Budget 2011 in Parliament which focuses on balancing the budgets by exercising fiscal restraint and identifying significant cost savings through a government-wide strategic and operating review.

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<sup>2</sup> Bank of Canada, Monetary Policy Report, April 2011.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.



## Passenger Growth

Transport Canada statistics show that in the last five years, the number of air travellers in Canada has increased nearly 12.7 percent. Although the global economic recession had a negative impact on the Canadian aviation sector in recent years, the economic recovery has resulted in a resumed growth in passenger traffic for the current year. Transport Canada data indicates that total passenger traffic for 2010 was up by 3.5 percent compared to 2009.

As the global economy continues to recover, passenger growth is expected to continue its upward trend. Commencing in 2011, passenger traffic is forecasted to grow in each of the following years, as demonstrated in the table below.

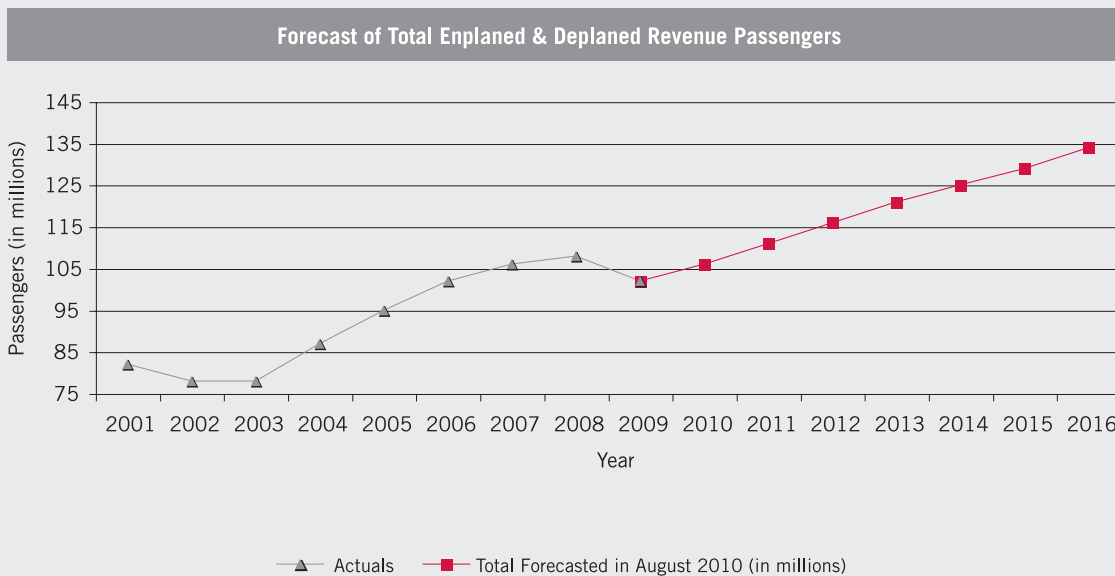
These estimates are based on average annual passenger growth across Canada and are subject to change. Changes in passenger traffic largely occur on a regional and site-specific basis and without much warning, often as a result of changes in flight schedules and/or the introduction of new services by the airlines. A change in passenger traffic results in a higher demand for screening hours and increased operating expenditures.

## Economic Significance of Canadian Air Transportation Industry

The Canadian economy relies heavily on the air transportation industry as a result of the significant number of jobs and economic activity it generates on an annual basis. An attack or serious threat to civil aviation would affect not only the aviation sector but thousands of Canadian businesses that rely on timely, secure and efficient air travel.

The air transportation industry includes airlines, airports authorities, screening contractors, as well as various elements of the aviation manufacturing, and travel and tourism industries. The air carriers generate approximately \$17.0 billion in annual revenue and employ over 40,000 individuals. The airport authorities generate approximately \$2.8 billion in annual revenue and employ approximately 3,400 individuals. Furthermore, the air cargo industry generates over \$94.0 billion of revenue on an annual basis, much of it carried on passenger aircraft.

CATSA recognizes that maintaining constant and effective communication with its partners and stakeholders is paramount in minimizing the potential impact of operational changes resulting from unplanned events and sudden regulatory amendments.



Source: Transport Canada

## PART 4 – Capability to Deliver

A cornerstone of contemporary aviation security is the screening of passengers, their baggage and personal belongings to detect the presence of prohibited items that may be brought onto aircraft and/or into restricted airport areas. Elements which are critical to the delivery of CATSA's mandate include the screening workforce and the capital deployment plan.

### Critical Screening Activities

#### *Screening workforce*

Screening Officers play a key role in identifying threats to aviation security by screening passengers prior to entering an aircraft, baggage destined for the hold of an aircraft and non-passengers at checkpoints within air terminal buildings. In recognition of this, significant resources are dedicated to strengthening the screening workforce.

Key accomplishments in 2010/11 include:

- planning related to the transformation of the existing Screening Officer training program aimed at improving the efficient, effective and consistent delivery of training in support of the 2009 Strategic Review. The new program will be consistent with CATSA's efforts towards implementing new technological advances in training and is expected to be launched in early 2011/12; and
- the continuation of the Oversight Program aimed at ensuring screening services are provided in an effective, efficient and consistent manner.

#### *Capital deployment plan*

In order to carry out its mandated screening activities, CATSA must have reliable and sophisticated equipment to scan for prohibited items. A capital program is in place to support the systematic, risk-based replacement and upgrading of equipment with new, more effective and efficient technologies.

In the last few years, CATSA has focused its efforts on the life-cycle management of its PBS equipment. Consequently, the majority of its PBS single-view X-ray units at major Canadian airports have been replaced with multi-view technology. This has contributed

to an increase in CATSA's explosive detection capabilities and achieving technological equivalency and compatibility with Canada's international security partners for PBS equipment. Furthermore, CATSA deployed Full-Body Scanners at all PBS checkpoints with US bound flights in response to the US Security Measures implemented after the events of December 25, 2009.

During the past year, CATSA commenced the replacement of its HBS equipment as the older equipment is reaching the end of its useful life. Over the coming years, CATSA will continue to focus on the life-cycle management of its HBS equipment.

### In Support of Business

To implement its business strategies, CATSA requires robust internal resources which support all aspects of its critical screening activities.

#### *Human resources*

CATSA's success is heavily dependent on the performance of its people. CATSA continually invests in its human capital by providing them with the necessary training and tools to work effectively and efficiently. This initiative serves to increase employee retention and improve job satisfaction.

CATSA's approved full time equivalency (FTE) headcount remained at 538 in 2010/11. Over the next year, CATSA expects to reduce its approved FTE headcount to 513. The reduction of 25 FTEs is the result of operational efficiencies identified within the 2009 Strategic Review and the CATSA Review 2010.

#### *Corporate management systems and practices*

CATSA continuously reviews and re-assesses its internal policies and practices to improve the efficiency with which it processes information. These reviews also increase the quality of reporting and the effectiveness of communications with external stakeholders.

#### *Business Continuity Plan*

In the event of a serious business disruption or system failure at headquarters, in the regions or at an airport, CATSA has a comprehensive Business Continuity Plan (BCP) in place that is regularly updated by management and reviewed by the Board of Directors. The BCP outlines critical services, establishes minimum

service levels, and contains a comprehensive strategy that includes command and control, supplier performance, infrastructure restart and information recovery considerations.

In preparation for the 2010 holiday travel period, CATSA conducted three regional exercises on December 7, 2010, designed to ensure operational readiness in the event of a major incident. The purpose of the exercise was to provide a forum in which selected CATSA staff could confirm response protocols and communications processes. The exercise was designed to test and identify any necessary amendments to documented plans and arrangements.

## PART 5 – Managing Risk

CATSA's ability to respond to its evolving operating environment is critical to CATSA's organizational success.

Risk management is a formalized, systematic process to determine the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk throughout the organization. The objective of risk management is to lead risk-informed decisions so that CATSA can effectively manage uncertainty in its operating environment and capitalize on opportunities.

CATSA's risk management program has evolved in the context of a larger aviation security system in which it participates. CATSA's mandate is not that of an intelligence gathering organization; rather, it relies upon directives from Transport Canada in order to respond to threat and risk information identified by other intelligence agencies. For example, new screening procedures were implemented by CATSA at the direction of Transport Canada following:

- the toner cartridge incident in October 2010;
- the attempted bombing of a Detroit-bound aircraft in Canadian airspace on December 25, 2009; and
- the plot to place liquid explosives on North America-bound flights in August 2006, including a number of flights to Canada.

All of CATSA's mandated security screening programs provide a web of security that reduces aviation security risk.

## Risks and Uncertainties

CATSA is exposed to a variety of aviation security risks and uncertainties within the context of its operating environment in air transportation. CATSA's priority risks have been aggregated in the following major categories: operational, capacity, service delivery through third parties, reputational, and foreign exchange.

### *Operational risk*

#### (i) *Responding to threat and risk information:*

The ever-changing threat environment and aviation security trends may challenge CATSA's ability to stay current with emerging threats and risks. An inability to respond to information in a timely manner or not reacting to information when it is received may impact CATSA's threat readiness.

To address this risk, CATSA actively monitors and analyzes threat and risk information from internal and external sources and has an integrated response strategy in place to act upon the information in accordance with its *Standard Operating Procedures*.

#### (ii) *Detection Capability:*

CATSA's activities include detecting and intercepting all forms of prohibited items. These prohibited items are defined by its regulator, Transport Canada. There is a risk that an inability to detect all prohibited items may result in a security breach and a threat to civil aviation.

In response to this risk, CATSA maintains programs focused on controlling human factors as well as improving the underlying screening processes and technologies such as:

- the integration of new technologies to assist in the consistent, accurate and timely detection of prohibited items;
- ongoing training of Screening Officers with improved and integrated communications tools; and
- the initiation of a Passenger Behaviour Observation pilot project at a major airport.

## Capacity risk

### (i) *Parliamentary appropriations in the long-term:*

Given the evolving security threat environment, forecasted growth in passenger traffic, inflationary pressures and current long-term funding constraints, CATSA's ability to sustain its current level of operations may be impacted in the long-term. There is a risk of not having sufficient funding to maintain operational capacity and service standards in the later years of CATSA's five-year planning period.

In response to this risk, CATSA has implemented operational efficiencies as outlined in the CATSA Review 2010 including the reconfiguration of PBS checkpoints and improving processes to stream passengers according to their perceived needs and associated risks. CATSA will address irregular and seasonal peaks deviating from baseline operations with current resources.

### (ii) *Resources for additional screening activities in response to major events:*

New unfunded mandated activities, new initiatives, high profile events or new government priorities may pose additional challenges for CATSA in achieving its core mandate. There is a risk that CATSA may lack the capacity (financial or human) to respond to new requirements or exceptional events.

In response to this risk, CATSA engages regularly with its regulator and stakeholders to better foresee future requirements. Business continuity planning is a continuous process at CATSA. In addition, CATSA manages its business based on a risk and regulatory requirements approach in order to optimize its organizational capacity.

### (iii) *Airport expansions:*

Parliamentary appropriations announced in Budget 2010 did not provide funding to accommodate requests for new PBS lanes, or expanded operations in HBS or NPS. There is a risk CATSA may not be able to accommodate these needs to the extent these requests increase in response to the ongoing increase in air passenger traffic.

In response to this risk as it relates to PBS, and as part of the CATSA Review 2010, CATSA is undertaking a checkpoint reconfiguration process to improve efficiency at peak and non-peak passenger screening times. A review of its Standard Operating Procedures is underway to increase passenger flow and throughput.

## Service delivery through third-party risk

CATSA is undergoing a transition phase from current screening contracts to new screening contracts. There is a risk that an ineffective or inefficient transition to new screening contracts may lead to labour disruptions at one or more airports.

In response to this risk, CATSA has:

- a dedicated Transition Working Group in place to develop multiple contingency plans to ensure a smooth transition; and
- a Communications Working Group in place to develop communication plans for various internal and external groups and stakeholders to ensure consistent messaging is provided to Screening Officers and screening contractors.

CATSA will take appropriate action to minimize disruption during the transition period.

## Reputational risk

Recent media reports reflect a perception from the travelling public that CATSA does not effectively communicate and demonstrate the "value for money" of its programs. There is a risk that CATSA's reputation may be damaged if the public feels that the cost of security is not reflected in the security outputs the organization provides.

To address this risk, the Government launched a review of CATSA to identify efficiencies to improve the screening process in order to stream passengers according to both their perceived needs and their associated risks.

CATSA is also working closely with its screening contractors, air carriers, airport authorities and other stakeholders to improve the air travel experience by better informing passengers on screening processes. The ultimate goal is to provide the right balance between security and customer service.

### *Foreign exchange risk*

CATSA is exposed to foreign exchange risk as a result of purchasing a significant amount of goods and services from vendors in the US. A significant fluctuation in foreign exchange rates impacts capital and operating budgets as planned expenditures are determined using estimated rates. Accordingly, fluctuation in rates can result in the cost of foreign denominated transactions being significantly different from what was initially budgeted.

## **Risk management**

Under the direction of CATSA's Board of Directors, the Senior Management Committee has established a comprehensive risk management framework. The framework identifies the risks associated with CATSA's environment and business activities, evaluates the probability and potential impact of risk occurrence, and defines mitigation measures to avoid or minimize risk. The framework is integrated into the organization's strategic planning process to ensure high-risk areas receive special consideration in the planning exercise, particularly with respect to establishing priorities and allocating resources.

The Board of Directors and the Senior Management Committee share the responsibility for risk management. Each plays an integral role in supporting CATSA with its risk mitigation strategies.

## *Board of Directors*

The Board's key functions and responsibilities are to provide strategic direction, financial oversight, corporate oversight and governance. With respect to risk management, the Board ensures that management identifies, monitors and manages CATSA's corporate risks. The Board also ensures that management keeps it apprised of any changes to the Corporate Risk Profile, through periodic briefings. The Board is assisted in the monitoring and management of risks through four standing committees: the Audit Committee, the Corporate Governance and Human Resources Committee, the Strategy Committee and the Pension Committee.

The Corporate Governance section further discusses the roles and responsibilities of these standing committees.

## *Senior Management Committee*

The Senior Management Committee is responsible for identifying and monitoring CATSA's key risks, providing clear direction on risk tolerance levels, and ensuring that appropriate controls and mitigation strategies are carried out to effectively manage key risks. This role includes supporting a positive risk culture and communicating risks throughout the organization.

## **PART 6 – Internal Controls**

CATSA's commitment to effective corporate governance and accountability is exemplified through its internal control certification program. The program includes identifying, documenting, and assessing the design and effectiveness of key internal controls over financial reporting. CATSA's risk-based approach is based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and the *Certification and Internal Control Regime for Crown Corporations* issued by TBS.

The assessment provides management with regular feedback regarding the state of internal controls. Following the assessment, management develops remediation plans for all opportunities for improvement. CATSA's Board of Directors, through the Audit Committee, receives quarterly updates on management's work with respect to enhancing internal controls and monitors progress of management's remediation plans.



## PART 7 – Analysis of Financial Results

The following table provides the key financial operating highlights for 2010/11, including comparative balances for 2009/10:

<b>Key Financial Highlights</b>				
<i>(Millions of dollars)</i>	<b>2010/11</b>	<b>2009/10</b>	<b>Variance \$</b>	<b>Variance %</b>
<b>Operating expenses:</b>				
Payments to screening contractors	\$ 365.4	\$ 336.3	\$ 29.1	9%
Amortization and accretion on asset retirement obligations	84.2	107.5	(23.3)	(22%)
Direct administrative costs and corporate services	85.3	81.4	3.9	5%
Equipment maintenance, spare parts and warehousing costs	39.3	41.2	(1.9)	(5%)
Uniforms, other screening related costs and consumables	8.9	8.0	0.9	11%
Training and certification	2.4	1.5	0.9	60%
Restricted Area Identity Cards	0.8	1.0	(0.2)	(20%)
<b>Total operating expenses</b>	<b>\$ 586.3</b>	<b>\$ 576.9</b>	<b>\$ 9.4</b>	<b>2%</b>
<b>Total other income (expenses)</b>	<b>(0.1)</b>	<b>3.2</b>	<b>(3.3)</b>	<b>(103%)</b>
<b>Net results of operations before government funding</b>	<b>\$ 586.4</b>	<b>\$ 573.7</b>	<b>\$ 12.7</b>	<b>2%</b>
<b>Government funding:</b>				
Parliamentary appropriations for operating expenses	512.3	472.3	40.0	8%
Amortization of deferred capital funding	86.1	108.1	(22.0)	(20%)
<b>Total government funding</b>	<b>\$ 598.4</b>	<b>\$ 580.4</b>	<b>\$ 18.0</b>	<b>3%</b>
<b>Net results of operations and comprehensive income</b>	<b>\$ 12.0</b>	<b>\$ 6.7</b>	<b>\$ 5.3</b>	<b>79%</b>

The following sections serve to provide discussion and analysis regarding significant variances for the year ended March 31, 2011.

### Operating Expenses

#### *Payments to screening contractors*

Payments to screening contractors consist primarily of Screening Officer salaries and benefits, and a fixed and variable component paid to the screening contractors to cover overhead costs and performance pay. The key variables impacting expenses include screening hours and billing rates. In addition, screening hours purchased can also impact fixed fees and account management fees paid to screening contractors.

Payments to screening contractors increased by \$29.1 million in 2010/11. The variance was attributable to increased screening hours and a higher average hourly billing rate. The increase in screening hours also resulted in the payment of higher fixed and account management fees to the screening contractors.

The increase in screening hours was due to:

- increased screening requirements imposed by Transport Canada in response to the failed terrorist attacks on December 25, 2009 and October 29, 2010; and
- the combined impact of passenger growth and the additional PBS lanes deployed late in 2009/10 and in operation for all of 2010/11.

The increase in the average hourly billing rate was due to an increase in Screening Officer wage rates as per the contractual commitment within the collective bargaining agreements between the Screening Officers' unions and the screening contractors engaged by CATSA.

The increase in spending was partially offset by non-recurring screening costs in 2009/10 for the 2010 Winter Olympic Games.

### *Amortization and accretion on asset retirement obligations*

Amortization of capital assets is recognized on a straight-line basis over the estimated useful life of the assets. Accretion on asset retirement obligations represents the unwinding of the discount resulting from present valuing the future obligation. The accretion expense is determined using the effective interest rate method.

Amortization and accretion on asset retirement obligations decreased by \$23.3 million in 2010/11 due primarily to decreased amortization on HBS integration assets resulting from the revision of their estimated useful lives from seven to 10 years. The estimated useful life was revised to better reflect the economic life of these assets.

The decrease was partially offset by increased amortization relating to additional PBS and non-EDS assets placed in service in late 2009/10 and in 2010/11.

### *Direct administrative costs and corporate services*

Direct administrative costs and corporate services include: employee costs, professional services, non-capital computer-related expenses, office supplies, travel expenses, communication and public awareness campaign costs, insurance, rent, and network and telephone expenses.

Direct administrative costs and corporate services increased by \$3.9 million in 2010/11 mainly due to:

- an increase in employee costs due to a higher average FTE headcount resulting from the staffing of new positions identified in the 2009/10 Hiring Plan; and
- an increase in office and computer expenses relating to non-capital upgrades and technology enhancements to strengthen the corporate IT infrastructure.

The above increase in spending was partially offset by:

- lower travel costs in 2010/11 due to reduced operational requirements;
- non-recurring costs incurred in 2009/10 for the 2010 Winter Olympic Games; and
- lower communication and public awareness costs in 2010/11 compared to the prior year resulting from more focused media campaigns.

### *Equipment maintenance, spare parts and warehousing costs*

CATSA is responsible for the operation and maintenance of all PBS and HBS equipment deployed at the 89 designated airports. Regular preventative maintenance is required on the equipment, including conveyor systems, to minimize service disruptions to airport operations. In addition, spare parts are purchased and warehoused to ensure that equipment can be returned to service in a timely manner.

Equipment maintenance, spare parts and warehousing costs decreased by \$1.9 million in 2010/11. The decrease relates to lower usage of spare parts throughout the year as a result of newer equipment which is currently under warranty. In addition, the decrease reflects the period-end valuation adjustment to ensure the inventory is recorded at the lower of cost and net realizable value.

### **Other Income (Expenses)**

Other income (expenses) consists of foreign exchange gains or losses, interest earned on cash deposits, gains (losses) on asset disposals, write-down of intangible assets and gains on settlement of asset retirement obligations.

Other income decreased by \$3.3 million in 2010/11 due primarily to the recognition of a foreign exchange loss in the current year compared to the recognition of a significant foreign exchange gain in the prior year.

### **Government Funding**

CATSA is funded by appropriations from the federal Consolidated Revenue Fund and draws funding according to its short-term spending needs. Parliamentary appropriations for operating

expenditures equal total expenses less amortization, accretion expense and certain other GAAP adjustments. Parliamentary appropriations for capital are recorded as deferred capital funding and amortized on the same basis and over the same period as the related property and equipment.

Government funding increased by \$18.0 million in 2010/11 in correlation to increased operating expenditures. The increase was significantly offset by a decrease in the amortization of deferred capital funding due to the reduction in the amount of amortization recognized in relation to HBS integration assets.

### Operating appropriations used

The table below provides a reconciliation between operating expenses recorded in the Statement of Operations, Comprehensive Income and Retained Earnings, and Operating Appropriations Used:

Operating Appropriations Used			
(Millions of dollars)	2010/11	2009/10	Variance
Total expenses (GAAP)	\$ 586.3	\$ 576.9	\$ 9.4
Amortization and accretion on asset retirement obligations	(84.2)	(107.5)	23.3
Interest and foreign exchange gain	(0.3)	(2.4)	2.1
Net change in prepaids <sup>1</sup>	(0.2)	–	(0.2)
Net change in inventory <sup>1</sup>	2.1	(0.7)	2.8
Employee future benefits <sup>2</sup>	9.4	6.7	2.7
Deferred lease inducement <sup>3</sup>	(0.8)	(0.7)	(0.1)
<b>Operating Appropriations Used</b>	<b>\$ 512.3</b>	<b>\$ 472.3</b>	<b>\$ 40.0</b>

<sup>1</sup> Inventory and prepaids are funded by appropriations on a cash basis when purchased.

<sup>2</sup> Employee future benefits (pension and post-retirement benefits) are accounted for in the Statement of Operations, Comprehensive Income and Retained Earnings based on the projected benefits method in accordance with Canadian GAAP. Based on the TBS *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*, CATSA is permitted to draw funds from the Consolidated Revenue Fund based on its short-term needs. This creates a reconciling item as the drawdown of funding for employee future benefits is not necessarily equal to the expense for accounting purposes under GAAP. The amount of funding to be drawn down is determined by a solvency and going concern valuation of the pension plans performed by CATSA's actuaries in accordance with the *Pension Benefits Standard Act*, 1985.

<sup>3</sup> Deferred lease inducement expense is a non-cash expense to record the benefit derived from favourable lease terms, including significantly reduced rent and free common area costs. Rental costs are funded by appropriations on a cash basis, creating a reconciling item.

### Capital appropriations used

The table below provides a reconciliation between capital appropriations used and property and equipment and intangible assets acquired during the year:

Capital Appropriations Used			
(Millions of dollars)	2010/11	2009/10	Variance
Total property and equipment and intangible asset acquisitions (GAAP)	\$ 56.2	\$ 117.8	\$ (61.6)
Acquisitions relating to asset retirement obligations	(0.2)	(1.0)	0.8
Proceeds on disposal of property and equipment	(1.1)	(0.7)	(0.4)
Deposit on property and equipment	–	(0.2)	0.2
<b>Capital Appropriations Used</b>	<b>\$ 54.9</b>	<b>\$ 115.9</b>	<b>\$ (61.0)</b>

### Liquidity and Capital Resources

CATSA's financial management policy and financial statements assume that the Authority is a going concern and its stated mandate will continue for the foreseeable future. The policy relies upon parliamentary appropriations to finance its operating and capital requirements, and to settle its financial obligations as they become due. In determining the amount of cash reserves carried for operating requirements, the Authority considers its short-term funding requirements in accordance with TBS *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*.

Liquidity and Capital Resources			
(Millions of dollars)	2010/11	2009/10	Variance
Cash	\$ 7.3	\$ 3.5	\$ 3.8
Accounts receivable	\$ 70.7	\$ 112.6	\$ (41.9)
Accounts payable and accrued liabilities	\$ 78.1	\$ 116.1	\$ (38.0)

## Cash

Cash has increased by \$3.8 million in 2010/11 as a result of generating \$15.1 million of cash flows from operating activities and \$76.1 million from financing activities, offset by \$87.4 million of cash flows being used in relation to investing activities.

## Accounts receivable

Accounts receivable has decreased by \$41.9 million in 2010/11 as a result of less parliamentary appropriations being owed to the Authority at year-end. The decrease was partially offset by an increased amount of recoverable sales tax owing to the Authority as a result of the implementation of the Harmonized Sales Tax in the provinces of Ontario and British Columbia.

## Accounts payable and accrued liabilities

Accounts payable and accrued liabilities have decreased by \$38.0 million in 2010/11 as a result of fewer outstanding invoices at year-end in relation to amounts owing to screening contractors and suppliers for capital acquisitions and equipment maintenance services.

## Capital Expenditures

Capital assets represent 75.4 percent of total assets as at March 31, 2011. In 2010/11, capital expenditures totalled \$56.0 million and consisted of Explosives Detection System (EDS), NPS and RAIC, and non-EDS assets:

Capital Expenditures			
(Millions of dollars)	2010/11	2009/10	Variance
EDS	\$ 39.9	\$ 89.0	\$ (49.1)
NPS and RAIC	3.5	7.8	(4.3)
Non-EDS	12.6	20.0	(7.4)
<b>Total capital expenditures</b>	<b>\$ 56.0</b>	<b>\$ 116.8</b>	<b>\$ (60.8)</b>

EDS capital expenditures included the following:

- HBS integration projects resulting from airport expansions in Vancouver, Winnipeg and Edmonton;
- upgrade of the HBS conveyor system at the Montréal airport in order to address its requirements for increased capacity;
- replacement of PBS and HBS single-view X-ray units with multi-view technology as part of the capital life-cycle management plan;
- purchase and installation of Full-Body Scanners at PBS checkpoints to support the US Security Measures imposed by Transport Canada in response to the failed terrorist attack on December 25, 2009; and
- purchase and deployment of equipment to enable explosive detection of liquids, aerosols and gels at PBS checkpoints.

NPS and RAIC capital expenditures included construction to complete a vehicle checkpoint at the Vancouver airport and the deployment of an upgraded RAIC application software to enhance the security of restricted areas.

Non-EDS capital expenditures included the following:

- deployment of the Boarding Pass Security System (BPSS) at seven of the eight busiest airports. Through the automated collection of data, the BPSS serves to enhance boarding pass verification, performance monitoring, and breach response;
- upgrade of the Call and Incident Data Collection system to enhance CATSA's incident management capabilities; and
- installation of Closed Circuit Television cameras at various airports to permit live monitoring of PBS screening lines and facilitate oversight and quality assurance of incidents.

## Employee Future Benefits

The Authority maintains two defined benefit pension plans, a registered pension plan and a supplementary retirement plan, to provide retirement benefits to its employees. CATSA also provides other post-retirement benefits for employees including post-retirement health care, dental care and life insurance.

Employee Future Benefits			
<i>(Millions of dollars)</i>	2010/11	2009/10	Variance
Employee future benefit assets	\$ 21.7	\$ 11.5	\$ 10.2
Employee future benefit obligation	\$ 5.5	\$ 4.8	\$ 0.7

The employee future benefit asset has increased by \$10.2 million in 2010/11 primarily due to employer contributions in excess of those required in order to address the registered pension plan solvency deficit.

CATSA's independent actuaries determine the plan's accrued benefit obligation as at December 31 of each year and adjusts the results to year-end to account for contributions and certain other accounting adjustments. The accrued benefit obligation fluctuates from year to year due to a combination of variables, including the inflation rate; workforce changes; changes in the discount rate, which is determined by reference to market interest rates; changes in the average rate of salary increases; and changes to the average expected remaining service lifetime of active employees due to changing demographics.

Note 9 of the financial statements provides further details regarding the underlying assumptions used in determining the employee future benefit obligation.

## Asset Retirement Obligations

Management has accrued a provision for asset retirement obligations associated with its PBS, HBS and NPS equipment and certain lease agreements. These obligations are expected to be settled between 2011 and 2018.

Asset Retirement Obligations			
<i>(Millions of dollars)</i>	2010/11	2009/10	Variance
Asset retirement obligations	\$ 2.4	\$ 7.1	\$ (4.7)

Asset retirement obligations decreased by \$4.7 million in 2010/11 as a result of revising the underlying cost estimates used in determining the liability. The revised estimates reflect contractual amounts as a result of securing an arrangement with a supplier for the future disposal of the related assets.

Significant assumptions used in determining the carrying value of the obligations are disclosed in note 10 of the financial statements and include a credit-adjusted risk-free discount rate, inflation rates and the expected years to settlement.

# PART 8 – Financial Performance Against Plan

## Operating Expenditures

The following table compares actual to planned operating expenditures for 2010/11 by major expenditure category:

<b>Operating Plan by Major Expenditure Category 2010/11</b>			
<i>(Millions of dollars)</i>	<b>Actual</b>	<b>Summary of the Corporate Plan</b>	<b>Variance</b>
Payments to screening contractors	\$ 365.4	\$ 361.1	\$ 4.3
Direct administrative costs and corporate services	85.3	97.0	(11.7)
Equipment maintenance, spare parts and warehousing costs	39.3	51.4	(12.1)
Uniforms, other screening related costs and consumables	8.9	8.0	0.9
Training and certification	2.4	1.3	1.1
Restricted Area Identity Cards	0.8	–	0.8
<b>Total operating expenditures</b>	<b>\$ 502.1</b>	<b>\$ 518.8</b>	<b>\$ (16.7)</b>
GAAP adjustments <sup>1</sup>	10.2	–	10.2
<b>Total operating appropriations</b>	<b>\$ 512.3</b>	<b>\$ 518.8</b>	<b>\$ (6.5)</b>

<sup>1</sup> GAAP adjustments include interest income and foreign exchange gains (losses) and non-cash adjusting entries related to employee future benefits, deferred lease inducement and net change in prepaids and inventory.

The 2010/11 Summary of the Corporate Plan above excludes operating funds of \$8.1 million which have been re-profiled to future years. The re-profiled funds relate to training and certification costs that had been budgeted in the event that a new vendor was awarded the new maintenance service provider contract. Subsequent to the development of the terms and conditions of the RFP for this contract, it was determined that these additional costs would be absorbed by the winning vendor, and therefore, the operating funds were not required.

In addition, CATSA has lapsed \$6.5 million in operating funds in 2010/11. At the close of 2010/11, CATSA was working with Transport Canada to initiate the appropriate procedures to seek approval to re-profile this amount to 2012/13.

### *Payments to screening contractors*

Payments to screening contractors in 2010/11 were \$4.3 million higher than planned mainly due to:

- an increase in the average hourly billing rate resulting from a number of re-negotiated collective bargaining agreements between the Screening Officers' unions and the screening contractors engaged by CATSA for certain airports; and
- an increase in account management and fixed fees paid to major screening contractors to cover overhead and administrative costs. CATSA re-negotiated the fees in good faith to re-align with the increased screening activity resulting from passenger growth and the additional screening requirements imposed by Transport Canada in response to the failed terrorist attacks on December 25, 2009 and October 29, 2010.



The additional costs described above were partially offset by lower than anticipated screening hours in relation to (i) staffing shortages at some of the busiest Canadian airports as a result of competitive labor markets; and (ii) a reduction in NPS activity compared to the Corporate Plan Summary. These events resulted in a surplus of screening hours compared to plan which was subsequently leveraged through the reallocation of hours to other airports in order to minimize the negative impact on passenger wait times resulting from passenger growth. CATSA was also able to realize additional efficiencies by scheduling resources more effectively at PBS checkpoints.

### *Direct administrative costs and corporate services*

Direct administrative costs and corporate services in 2010/11 were \$11.7 million lower than planned. The variance was mainly attributable to:

- lower employee costs due to longer than anticipated time required to staff vacant positions;
- the recognition of pension deficit solvency payments as pension assets versus expenditures as reported within the 2010/11 Summary of the Corporate Plan;
- lower than anticipated fit-up costs for CATSA headquarters and regional office facilities; and
- lower travel, and network and telephone expenses.

The decrease in spending was partially offset by higher than anticipated professional services costs for various projects and initiatives including the RFP for the ASSAs, computer-based training, performance based measurement reporting, and training and evaluation for the Passenger Behaviour Observation pilot program.

### *Equipment maintenance, spare parts and warehousing costs*

Equipment maintenance, spare parts and warehousing costs in 2010/11 were \$12.1 million lower than planned as a result of the following:

- an allowance for additional maintenance costs was budgeted in the event that a new vendor was awarded the new maintenance service provider contract. As the incumbent vendor was awarded the contract, these operating funds were not required;

- favourable foreign exchange rates on equipment maintenance services from US vendors;
- lower maintenance costs as a result of delays in the deployment of EDS equipment;
- lower usage of spare parts throughout the year due to certain EDS equipment being under warranty; and
- the period-end valuation adjustment of spare parts inventory.

### *Uniforms, other screening related costs and consumables*

Uniforms, other screening related costs and consumables expenditures in 2010/11 were \$0.9 million higher than planned. The increase was attributable to higher than anticipated costs related to the purchase of roller tables used to increase the efficiency of PBS screening checkpoints, and private search stalls used to facilitate the US security measures.

### *Training and certification*

Training and certification expenditures in 2010/11 were \$1.1 million higher than planned as a result of:

- training delivered in 2010/11 for new PBS equipment technology deployed late in the prior year; and
- additional training required to ensure compliance of the maintenance service provider technicians.

### *RAIC*

RAIC expenditures in 2010/11 reflect the consumption of existing RAIC inventory throughout the year which was not included in the Summary of the Corporate Plan.

## Capital Expenditures

The following table compares actual to planned capital expenditures for 2010/11 by major expenditure category:

<b>Capital Plan by Major Expenditure Category 2010/11</b>			
<i>(Millions of dollars)</i>	<b>Actual</b>	<b>Summary of the Corporate Plan</b>	<b>Variance</b>
<b>EDS capital</b>			
PBS equipment and integration	\$ 23.8	\$ 29.4	\$ (5.6)
HBS equipment and integration	16.1	15.6	0.5
<b>Total EDS capital</b>	<b>\$ 39.9</b>	<b>\$ 45.0</b>	<b>\$ (5.1)</b>
<b>NPS and RAIC capital</b>			
NPS	\$ 2.6	\$ 2.8	\$ (0.2)
RAIC	0.9	0.5	0.4
<b>Total NPS and RAIC capital</b>	<b>\$ 3.5</b>	<b>\$ 3.3</b>	<b>\$ 0.2</b>
<b>Non-EDS capital</b>	<b>12.6</b>	<b>10.6</b>	<b>2.0</b>
<b>Total capital expenditures</b>	<b>\$ 56.0</b>	<b>\$ 58.9</b>	<b>\$ (2.9)</b>
Proceeds on disposal	(1.1)	–	(1.1)
<b>Total capital appropriations</b>	<b>\$ 54.9</b>	<b>\$ 58.9</b>	<b>\$ (4.0)</b>

The 2010/11 Summary of the Corporate Plan excludes capital funds of \$9.3 million which have been re-profiled to 2011/12. The re-profiled capital funds relate to:

- EDS capital (\$7.3 million) including HBS airport integration projects which were postponed mainly due to a reassessment of the life-cycle management of HBS equipment; and
- non-EDS capital (\$2.0 million).

Due to the \$2.9 million capital spending variance combined with the proceeds from the disposition of capital assets of \$1.1 million, CATSA has lapsed \$4.0 million in capital funds. At the close of 2010/11, CATSA was working with Transport Canada to initiate the appropriate procedures to seek approval to re-profile this amount to 2012/13.

### *EDS capital*

EDS capital expenditures in 2010/11 were \$5.1 million lower than planned. The lower spending was mainly due to:

- lower than expected costs for the deployment of EDS equipment as a result of the reassessment of requirements and space limitations at certain airports;
- realized savings from favourable vendor pricing for PBS X-ray multi-view and Full-Body Scanner units resulting from supplier negotiations; and
- lower than anticipated costs for the Vancouver HBS integration project.

The lower spending was partially offset by costs related to the HBS conveyor system upgrade at the Montréal airport and the HBS transborder integration at the Edmonton airport. As these projects were originally planned to start in 2011/12, the costs were not budgeted under the current year's plan.

### *NPS and RAIC capital*

NPS capital expenditures for 2010/11 were comparable to the current year's plan.

RAIC capital expenditures for 2010/11 were slightly higher than planned. The increase in spending was due to higher than anticipated costs to complete the deployment of the Renewed RAIC Application.

### *Non-EDS capital*

Non-EDS capital expenditures in 2010/11 were \$2.0 million higher than planned. The increase in spending was mainly due to:

- the deployment of the BPSS at three additional major airports which were originally planned for 2011/12, for a total deployment at seven of the eight busiest Canadian airports in 2010/11; and
- higher than anticipated costs for the purchase of hardware and software to strengthen the IT infrastructure in support of new corporate initiatives including the Screening Officer Foundation program.

The increase in spending was partially offset by lower costs for CCTV due to a reassessment of airport requirements.

## PART 9 – Five-Year Summary Financial Information

Five-Year Summary of Operating Results					
<i>(Millions of dollars)</i>	2010/11	2009/10	2008/09	2007/08	2006/07
<b>Expenses</b>					
Pre-Board Screening and Hold-Baggage Screening	\$ 510.2	\$ 498.7	\$ 417.9	\$ 428.5	\$ 383.4
Corporate services	54.5	50.9	41.4	38.1	35.4
Non-Passenger Screening	17.1	24.7	12.4	13.3	10.9
Restricted Area Identity Card Program	4.5	2.6	4.5	6.1	8.2
<b>Total expenses</b>	<b>\$ 586.3</b>	<b>\$ 576.9</b>	<b>\$ 476.2</b>	<b>\$ 486.0</b>	<b>\$ 437.9</b>
<b>Total other income (expenses)</b>	<b>(0.1)</b>	<b>3.2</b>	<b>0.3</b>	<b>3.2</b>	<b>1.9</b>
<b>Net results of operations before government funding</b>	<b>\$ 586.4</b>	<b>\$ 573.7</b>	<b>\$ 475.9</b>	<b>\$ 482.8</b>	<b>\$ 436.0</b>
<b>Government funding</b>					
Parliamentary appropriations for operating expenses	512.3	472.3	378.3	389.3	347.4
Amortization of deferred capital funding	86.1	108.1	98.2	93.4	88.9
<b>Total government funding</b>	<b>\$ 598.4</b>	<b>\$ 580.4</b>	<b>\$ 476.5</b>	<b>\$ 482.7</b>	<b>\$ 436.3</b>
<b>Net results of operations and comprehensive income</b>	<b>\$ 12.0</b>	<b>\$ 6.7</b>	<b>\$ 0.6</b>	<b>\$ (0.1)</b>	<b>\$ 0.3</b>

## Five-Year Summary of Financial Position

<i>(Millions of dollars)</i>	2010/11	2009/10	2008/09	2007/08	2006/07
<b>Assets</b>					
Cash	\$ 7.3	\$ 3.5	\$ 2.0	\$ 1.6	\$ 5.1
Accounts receivable	70.7	112.6	69.6	82.5	124.7
Inventory	21.8	19.7	20.4	17.6	16.6
Prepaid expenses	3.4	3.5	3.8	2.7	3.0
Employee future benefits	21.7	11.5	2.7	2.0	0.8
Property and equipment and intangible assets	382.8	417.3	412.7	459.0	505.2
<b>Total assets</b>	<b>\$ 507.7</b>	<b>\$ 568.1</b>	<b>\$ 511.2</b>	<b>\$ 565.4</b>	<b>\$ 655.4</b>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 78.1	\$ 116.1	\$ 70.0	\$ 82.7	\$ 127.3
Deferred lease inducement	1.5	0.7	–	–	–
Employee future benefits	5.5	4.8	4.3	3.3	3.4
Asset retirement obligations	2.4	7.1	12.0	5.5	5.1
Deferred capital funding	383.8	415.0	407.2	456.8	502.4
<b>Total liabilities</b>	<b>\$ 471.3</b>	<b>\$ 543.7</b>	<b>\$ 493.5</b>	<b>\$ 548.3</b>	<b>\$ 638.2</b>
<b>Equity</b>					
Retained earnings	36.4	24.4	17.7	17.1	17.2
<b>Total liabilities and equity</b>	<b>\$ 507.7</b>	<b>\$ 568.1</b>	<b>\$ 511.2</b>	<b>\$ 565.4</b>	<b>\$ 655.4</b>

## PART 10 – Future Outlook

### Financial Outlook

In Budget 2010, CATSA received long-term funding in the amount of \$1.5 billion (on an accrual basis) over the period 2010/11 to 2014/15. CATSA's ongoing annual reference levels starting in 2015/16 were re-adjusted to \$605.7 million (including \$59.0 million for capital) to more closely align with CATSA's core operational requirements.

### Operating funding

While the long-term funding was a significant change from the past several years, the level of operating funding provided within Budget 2010, did not accommodate growth in passenger volumes or the cost of inflation. In addition, CATSA faced a five-year funding profile that did not reflect its cash requirements and declined in later years of the planning period. However, in order to partially address the budgetary pressures, CATSA has obtained approval to re-profile \$35.8 million of lapsed funds from its 2009/10 and 2010/11 appropriations and apply it to the 2013/14 and 2014/15 operating budgets. In addition, CATSA was also granted the financial flexibility to utilize a portion of funding from its 2015/16 appropriations and redistribute it over the five-year planning period.

CATSA also proactively assessed its operations to identify improvement opportunities to increase operational efficiencies. As part of this internal review and the CATSA Review 2010, CATSA was able to identify a number of operational efficiencies.

In support of CATSA's front-line operations, and in line with the Government of Canada's Directive, *Addressing Budget 2010 Cost Containment Measures in Crown Corporation's Corporate Plans*, the organization will also apply cuts to the major lines of expenditures, with a focus on employee costs, equipment-related expenditures and other corporate services costs, such as professional services and travel.

### Capital funding

CATSA's capital plan focuses primarily on the life-cycle management of CATSA's aging HBS equipment. Under Transport Canada's direction, CATSA has formulated a HBS capital plan that allows the organization to address required capacity while laying the foundations for life-cycle management of its HBS system. This includes phasing out non-CT technology in the HBS system and deploying technology which will ensure CATSA maintains international equivalency with the European Union. The capital plan also allows CATSA to better align its HBS systems with the US which will eliminate the need for the Transportation Security Administration to re-screen hold baggage arriving from Canada.

### CATSA Review 2010

The CATSA Review 2010 served to identify a number of efficiencies and improvements in the following areas:

- streaming of passengers at PBS checkpoints and modification of the PBS process to realize an increase in passenger throughput per PBS checkpoint at the eight busiest Canadian airports;
- investing in new generation HBS equipment to maintain international equivalence and continue to efficiently process checked baggage; and
- transforming the Screening Officer workforce culture to focus more on passenger facilitation and provide effective security by helping passengers to comply with screening requirements.

The Review recommendations also include proposed changes to Transport Canada's regulatory framework, such as a review of the *Prohibited Items List*, that are designed to grant greater regulatory flexibility and allow CATSA to focus more on risk and outcome-based security screening.

Following the Minister of Transport, Infrastructure and Communities' announcement of the CATSA Review 2010 results on February 3, 2011, CATSA has commenced working in consultation with Transport Canada to implement the findings. These measures, coupled with changes made to the regulatory framework and *Prohibited Items List*, are leading to an increase in the average passenger throughput per PBS checkpoint.

The table below outlines the operational efficiencies identified through the CATSA Review 2010 translated into savings (in millions of dollars) over the planning period 2011/12-2014/15 and beyond:

2011/12	2012/13	2013/14	2014/15	2015/16 and ongoing
\$ 7.9	\$ 25.6	\$ 25.8	\$ 26.0	\$ 26.0

## Airport Screening Services Agreements

In 2011/12, CATSA will award new long-term screening contracts. While cost efficiencies cannot be estimated at this time, CATSA will be better positioned to hold future screening contractors accountable under the newly defined contractual relationship. In addition, the ASSAs will provide screening contractors with both the economic incentive and sufficient time to achieve optimal management capabilities, competencies, and systems which, in turn, would allow CATSA to focus its resources on improving overall screening effectiveness and efficiency.

It is anticipated that billing rates for screening services will be impacted by the RFP; however, the extent of the impact will only be known once the RFP has been concluded.

## Budget 2011 and Beyond

The Government of Canada indicated through the Budget of June 6, 2011, its intention to reallocate the operating savings generated by efficiencies identified in the CATSA Review 2010 to other aviation security initiatives. As a result, these operating savings will be deducted from CATSA's reference level of operating funding starting in 2011/12 and CATSA will reduce the number of screening hours purchased each year over the five-year planning period. In addition, inflation and growth in passenger volumes are not accounted for in CATSA's funding profile.

As outlined at the beginning of this section, the financial flexibility granted to CATSA following Budget 2010, the efficiencies generated through the CATSA Review 2010 as well as CATSA's efforts to control corporate services costs will help the organization partially manage pressures caused by passenger growth and inflation which remain unaddressed and have been compounding since 2009. In spite of efficiency gains in throughput, these pressures will continue to challenge CATSA's core screening operations.

Starting in 2011/12, CATSA will reduce the number of screening hours purchased in order to stay within the allocated funds. Over the long-term, in the absence of further operational changes, reduced reference levels combined with the lack of growth in PBS lanes and inflationary pressures will continue to put a strain on CATSA's PBS capacity and will trigger longer wait times, particularly at the busiest airports that are already experiencing pent-up demand. Reduced operating funding will limit CATSA's ability to manage potential new security regulations with intensive labour requirements arising from unexpected incidents.

Budget 2011 announced a comprehensive one-year Strategic and Operating Review across all of government in 2011/12. This review will focus on improving the efficiency and effectiveness of government operations and programs to ensure value for taxpayer money with the objective of achieving at least \$4 billion in ongoing annual savings by 2014/15. As a Crown corporation, CATSA will be subject to this review. While the terms of reference have not been released at the time of the writing of this Annual Report, CATSA anticipates that there may be further impacts on its funding levels.

To mitigate the risk stemming from these funding pressures and to minimize the impact of its stakeholders, CATSA is informing stakeholders that it is committed to meeting the throughput targets identified in the CATSA Review 2010. CATSA is working with its stakeholders to determine collaborative ways to find operational efficiencies and to minimize the impact of CATSA's current funding situation on operational service levels.

Additional capital funding announced in Budget 2011 for HBS would enable CATSA to accelerate its recapitalization program, allowing the organization to better maintain international equivalency with international partners.



# Management's Responsibility Statement

Year ended March 31, 2011

The financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles. The integrity and objectivity of the data in these financial statements are management's responsibility. It is necessary for management to make assumptions and estimates based on information available as at the date of the financial statements. Management has made estimates and assumptions in the following areas: the valuation of employee future benefits, the useful lives of property and equipment and intangible assets, the valuation of inventory, the percentage of completion of work in progress and the measurement of accrued liabilities, contingent liabilities and asset retirement obligations. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that the financial information is reliable, the assets are safeguarded, and that transactions are in accordance with Part X of the *Financial Administration Act* and the *Canadian Air Transport Security Authority Act* and are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. CATSA has an internal audit department whose functions include reviewing internal controls and their application on an ongoing basis.

The Board of Directors is responsible for overseeing our business and activities. In particular, the Board provides oversight to ensure that management fulfills its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of CATSA. The Audit Committee meets regularly with management, Internal Audit and with the Office of the Auditor General of Canada (OAG). The OAG has full and unrestricted access to the Audit Committee to discuss their findings. The Board of Directors, upon recommendation of the Audit Committee, reviews and approves the financial statements.

The Auditor General of Canada conducts an independent audit, in accordance with Canadian generally accepted auditing standards, and expresses an opinion on the financial statements. The Independent Auditor's Report is presented on the following page.



**Kevin McGarr, M.S.M., MBA**  
President and Chief Executive Officer



**Mario Malouin, CA**  
Vice-President and Chief Financial Officer

June 17, 2011



## INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

### Report on the Financial Statements

I have audited the accompanying financial statements of the Canadian Air Transport Security Authority, which comprise the balance sheet as at March 31, 2011, and the statement of operations, comprehensive income and retained earnings and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Air Transport Security Authority as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

### Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Canadian Air Transport Security 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 regulations and the by-laws of the Canadian Air Transport Security Authority.

John Wiersema, FCA  
Interim Auditor General of Canada

June 17, 2011  
Ottawa, Canada

# Balance Sheet

March 31, 2011, with comparative figures for 2010  
(Thousands of dollars)

	2011	2010
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 7,335	\$ 3,512
Accounts receivable (note 5)	70,725	112,588
Inventories (note 6)	21,785	19,695
Prepaid expenses	3,355	3,537
	<b>103,200</b>	<b>139,332</b>
<b>Employee future benefits (note 9)</b>	<b>21,694</b>	<b>11,468</b>
<b>Property and equipment and intangible assets (note 7)</b>		
Property and equipment	369,945	405,921
Intangible assets	12,849	11,369
	<b>382,794</b>	<b>417,290</b>
	<b>\$ 507,688</b>	<b>\$ 568,090</b>
<b>Liabilities and Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 8)	\$ 78,124	\$ 116,100
<b>Deferred lease inducement</b>	<b>1,497</b>	<b>730</b>
<b>Employee future benefits (note 9)</b>	<b>5,521</b>	<b>4,759</b>
<b>Asset retirement obligations (note 10)</b>	<b>2,378</b>	<b>7,112</b>
<b>Deferred capital funding (note 11)</b>	<b>383,726</b>	<b>414,983</b>
	<b>471,246</b>	<b>543,684</b>
<b>Equity</b>		
Retained earnings	36,442	24,406
	<b>\$ 507,688</b>	<b>\$ 568,090</b>

Commitments (note 14) and contingent liabilities (note 18)

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

Approved by the Board of Directors



**D. Ian Glen, Q.C.**  
Chair

Approved by management



**Kevin McGarr, M.S.M., MBA**  
President and Chief Executive Officer

# Statement of Operations, Comprehensive Income and Retained Earnings

Year ended March 31, 2011, with comparative figures for 2010  
(Thousands of dollars)

	2011	2010
<b>Expenses</b>		
Pre-Board Screening and Hold-Baggage Screening	\$ 510,170	\$ 498,722
Corporate services	54,515	50,883
Non-Passenger Screening	17,151	24,682
Restricted Area Identity Card Program	4,464	2,599
Total expenses (note 12)	<u>586,300</u>	<u>576,886</u>
<b>Other income (expenses)</b>		
Gain on settlement of asset retirement obligations	919	242
Interest income	470	198
Foreign exchange gain (loss)	(136)	2,113
Gain (loss) on disposal of property and equipment	(881)	604
Write-down of intangible assets (note 7)	(476)	–
<b>Net results of operations before government funding</b>	<u>586,404</u>	<u>573,729</u>
<b>Government funding</b>		
Parliamentary appropriations for operating expenses (note 4)	512,249	472,303
Amortization of deferred capital funding (note 11)	86,191	108,115
Total government funding	<u>598,440</u>	<u>580,418</u>
<b>Net results of operations and comprehensive income for the year</b>	<u>12,036</u>	<u>6,689</u>
<b>Retained earnings, beginning of year</b>	<u>24,406</u>	<u>17,717</u>
<b>Retained earnings, end of year</b>	<u>\$ 36,442</u>	<u>\$ 24,406</u>

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

# Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010  
(Thousands of dollars)

	2011	2010
<b>Cash flows provided by (used in)</b>		
<b>Operating activities</b>		
Net results of operations	\$ 12,036	\$ 6,689
Items not involving cash:		
Amortization of property and equipment (note 12)	80,343	105,267
Amortization of intangible assets (note 12)	3,722	2,168
Net (gain) loss on disposal of property and equipment	881	(604)
Write-down of intangible assets	476	-
Increase in employee future benefits	(9,464)	(8,267)
Increase in deferred lease inducement	767	730
Accretion on asset retirement obligations (note 10)	194	81
Gain on settlement of asset retirement obligations	(919)	(242)
Amortization of deferred capital funding	(86,191)	(108,115)
Net change in non-cash working capital balances (note 17)	13,208	5,633
	<b>15,053</b>	<b>3,340</b>
<b>Financing activities</b>		
Parliamentary appropriations for capital funding	76,145	92,683
	<b>76,145</b>	<b>92,683</b>
<b>Investing activities</b>		
Purchase of property and equipment	(81,375)	(88,743)
Purchase of intangible assets	(6,002)	(5,868)
Proceeds on disposal of property and equipment	2	51
	<b>(87,375)</b>	<b>(94,560)</b>
<b>Increase in cash</b>	<b>3,823</b>	<b>1,463</b>
<b>Cash, beginning of year</b>	<b>3,512</b>	<b>2,049</b>
<b>Cash, end of year</b>	<b>\$ 7,335</b>	<b>\$ 3,512</b>

Supplementary cash flow information (note 17)

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

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 1. Authority, mandate, 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.

CATSA's mandate is to deliver effective and efficient screening of individuals and their personal belongings before accessing aircraft or restricted areas through screening points at designated airports within Canada. The organization is also responsible for ensuring consistency in the delivery of screening activities in the public interest and has four mandated activities:

1. Pre-Board Screening (PBS) – the screening of passengers, their carry-on baggage and their personal belongings;
2. Hold-Baggage Screening (HBS) – the screening of checked baggage;
3. Non-Passenger Screening (NPS) – the screening of non-passengers; and
4. Restricted Area Identity Cards (RAIC) – the administration of access control to airport restricted areas through biometric identifiers.

CATSA is not subject to income tax under the provisions of the *Income Tax Act* (Canada). CATSA is subject to the *Excise Tax Act* (Canada), the federal Goods and Services Tax (GST), and all sales taxes applied by the provinces and territories in which it operates.

## 2. Significant accounting policies

CATSA's financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies:

### (a) Inventories

Inventories consist of spare parts acquired for equipment maintenance, uniforms, and RAIC. Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost and net realizable value is defined as replacement cost.

### (b) Property and equipment

Property and equipment consist of screening equipment, RAIC equipment, computers, integrated software and electronic equipment, office furniture and equipment, leasehold improvements, and work in progress. Property and equipment are recorded at cost less accumulated amortization, except for work in progress, which is recorded at cost but not amortized until the asset is put into service.

Cost includes all costs directly attributable to the acquisition, construction, development or betterment of the assets, including integration costs related to the installation at the airports to ensure the assets are in a condition necessary for their intended use.



# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 2. Significant accounting policies (continued)

### (b) Property and equipment (continued)

Amortization is calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below:

PBS equipment	3–10 years
HBS equipment	7–10 years
NPS equipment	7–10 years
RAIC equipment	3–7 years
Computers, integrated 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 shorter of the related lease term or estimated useful life.

### (c) Intangible assets

Intangible assets are non-monetary assets without physical substance. CATSA's intangible assets consist of separately acquired and internally developed computer software. Costs that are directly associated with the acquisition or internal development of identifiable software which will, in management's best estimate, provide a future economic benefit to CATSA are recognized as intangible assets.

Amortization for intangible assets is calculated using the straight-line method and is applied over their estimated useful lives of 3–5 years.

### (d) Asset retirement obligations

Asset retirement obligations are recognized at fair value in the period in which CATSA incurs a legal obligation associated with the retirement of a long-lived asset that results from the acquisition, construction, development and/or use of the asset. In the year of acquisition, the fair value of the asset retirement obligation is determined by an estimate of the future cash flows which are discounted using a credit-adjusted risk-free rate. The asset retirement cost is capitalized as part of the asset's carrying amount.

Asset retirement obligations are 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. The effect of a change in estimate is recognized prospectively.

Changes resulting from the passage of time are recognized as an accretion expense and are charged to operating expenses, 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 and are capitalized as part of the carrying amount of property and equipment.

The asset retirement cost that is capitalized as part of the carrying amount of property and equipment is amortized on a straight-line basis over the related asset's estimated useful life.

### (e) Employee future benefits

CATSA maintains two defined benefit pension plans ("pension plans"), a registered pension plan (RPP) and a supplementary retirement plan (SRP), to provide retirement benefits to its employees. CATSA also provides other post-retirement benefits ("other benefits plan") for employees including health care, dental care, and life insurance.

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 2. Significant accounting policies (continued)

### (e) Employee future benefits (continued)

The cost of the pension and other benefits plans earned by employees is actuarially determined using the projected benefit method, prorated on service using assumptions which represent management's best estimate of future events affecting the return of the plans. These assumptions are of a long-term nature, which is consistent with the long-term nature of employee future benefits. For the purpose of calculating the expected return on the assets of the pension plans, assets have been taken at fair value. The discount rate used to value the benefit obligation is based on corporate AA bonds with terms of maturity that match the duration of the plans established by CATSA's independent actuaries. In accordance with Canadian GAAP, the measurement date selected by management is December 31, with a suitable adjustment for cash contributions remitted by CATSA into the pension plans between the measurement date and the fiscal year-end.

The net benefit cost (gain) recognized in the period consists of the actuarially determined pension benefits and other post-retirement benefits for the current year's service, imputed interest on projected pension obligations net of expected return on pension plan assets and the amortization of a portion of the actuarial gains or losses over the average remaining service period of active employees expected to receive benefits under the plan.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the expected average remaining service period to full eligibility of active employees, from the date of amendments. This period has been determined to be 19 years (2010 – 19 years) for the RPP, 14 years (2010 – 14 years) for the SRP and 12 years (2010 – 12 years) for the other benefits plan.

CATSA's independent actuaries determine the plans' accrued benefit obligation and fair value of assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the RPP was as at December 31, 2009, extrapolated to December 31, 2010 for accounting purposes. The next required actuarial valuation, to be completed in 2011, will be as at December 31, 2010. The most recent actuarial valuation of the SRP was as at December 31, 2009, extrapolated to December 31, 2010 for accounting purposes. Although the next actuarial valuation for the SRP is required to be completed as at December 31, 2012, management intends to voluntarily obtain an actuarial valuation as at December 31, 2010. The most recent actuarial valuation of the other benefits plan was as at December 31, 2010, and the next required actuarial valuation will be as at December 31, 2013.

Actuarial gains (losses) arise from the difference between the actual results of the plans for a period and the expected results of the plan for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees. The expected average remaining service period of the active employees for 2011 has been determined to be 13 years (2010 – 13 years) for the RPP, 11 years (2010 – 9 years) for the SRP and 17 years (2010 – 17 years) for the other benefits plan.

The cumulative difference between the employee benefit cost and funding contributions is reflected in the balance sheet as an employee future benefits asset or liability.

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 2. Significant accounting policies (continued)

### (f) Parliamentary appropriations

CATSA's main source of funding is appropriations received from the Government of Canada.

Parliamentary appropriations used for operating expenses are recorded in the Statement of Operations, Comprehensive Income and Retained Earnings in the fiscal year in which the related expenses are incurred.

Parliamentary appropriations used to acquire property and equipment and intangible assets are recorded as deferred capital funding and amortized on the same basis and over the same periods as the related asset. The amortization of the deferred capital funding is recorded in the Statement of Operations, Comprehensive Income and Retained Earnings. Upon disposal of funded depreciable assets, CATSA recognizes in the Statement of Operations, Comprehensive Income and Retained Earnings any remaining deferred capital funding related to the specific asset.

Parliamentary appropriations not used during the year are returned to the Government of Canada.

### (g) Interest income

Interest income is derived from bank balances and is recognized as it is earned.

### (h) 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 and non-monetary assets and liabilities are translated at rates of exchange in effect when the assets were acquired or the obligation incurred. All exchange gains and losses are included in determining net results of operations and comprehensive income for the year.

### (i) Comprehensive income

Comprehensive income consists of net results of operations and other comprehensive income. As CATSA did not realize any other comprehensive income for the year, comprehensive income equals net results of operations.

### (j) Financial instruments

Financial instruments are measured at fair value on initial recognition. Subsequent to initial recognition, they are accounted for based on their classification.

CATSA's financial instruments are classified and measured as follows:

Financial Instrument	Classification	Measurement
Cash	Held for trading	Held for trading financial assets are measured at fair value at the balance sheet date. Fair value fluctuations include interest earned.
Accounts payable and accrued liabilities	Other liabilities	Other liabilities are recorded at fair value with subsequent measurement at amortized cost using the effective interest rate method.

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 2. Significant accounting policies (continued)

### (j) Financial instruments (continued)

Accounts receivable are not classified as financial assets because they do not represent contractual rights but rather amounts owing as a result of statutory requirements imposed by federal and provincial governments.

### (k) Deferred lease inducement

Deferred lease inducement represents a rent-free period of common area costs as well as a period of significantly reduced rent related to leased premises. Amortization is recognized on a straight-line basis over the term of the lease, which expires November 30, 2017.

### (l) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Expenses incurred under operating leases are recognized in the Statement of Operations, Comprehensive Income and Retained Earnings on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

### (m) Measurement uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant management estimates include assumptions used in the valuation of employee future benefits, the useful lives of property and equipment and intangible assets, the valuation of inventory, the percentage of completion of work in progress and the measurement of accrued liabilities, contingent liabilities and asset retirement obligations.

## 3. Future accounting changes

CATSA will adopt International Financial Reporting Standards (IFRS) for its fiscal year beginning April 1, 2011. CATSA has completed the planning and diagnosis activities of its transition plan and has completed the analysis and design of accounting policies phase. CATSA is currently implementing the action plan developed in the analysis and design of accounting policies phase that involves the creation of new accounts and financial statements model, system changes and process changes. The transition from current Canadian GAAP to IFRS is a significant undertaking that will have a significant impact on CATSA's reported financial position and results of operations.

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 4. Parliamentary appropriations

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

	2011	2010
Parliamentary appropriations approved	\$ 577,646	\$ 615,941
Unused portion of Parliamentary appropriations (operating)	(6,504)	(18,761)
Unused portion of Parliamentary appropriations (capital)	(3,959)	(8,960)
Total Parliamentary appropriations used	<u>\$ 567,183</u>	<u>\$ 588,220</u>

Parliamentary appropriations were used as follows:

Operating funding	\$ 512,249	\$ 472,303
Capital funding (note 11)	54,934	115,917
Parliamentary appropriations used	<u>\$ 567,183</u>	<u>\$ 588,220</u>

## 5. Accounts receivable

Accounts receivable are comprised of:

	2011	2010
Parliamentary appropriations	\$ 52,183	\$ 103,219
Goods and Services Tax and Harmonized Sales Tax recoverable	17,044	7,720
Provincial Sales Tax recoverable	1,369	1,578
Other	129	71
	<u>\$ 70,725</u>	<u>\$ 112,588</u>

## 6. Inventories

CATSA's inventories are comprised of:

	2011	2010
Spare parts inventory	\$ 19,688	\$ 17,710
Restricted Area Identity Cards	1,107	1,904
Uniforms	990	81
	<u>\$ 21,785</u>	<u>\$ 19,695</u>

During the year, inventories totalling \$1,468 (2010 – \$4,352) were charged to expenses. This includes an amount of \$523 (2010 – \$812) resulting from a write-down of inventory to net realizable value.

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 7. Property and equipment and intangible assets

	Cost	Accumulated amortization	Net book value 2011	Net book value 2010
Property and equipment:				
PBS equipment	\$ 133,019	\$ 59,798	\$ 73,221	\$ 44,682
HBS equipment	643,135	411,369	231,766	266,823
NPS equipment	9,602	2,290	7,312	2,506
RAIC equipment	8,644	4,551	4,093	2,822
Computers, integrated software and electronic equipment	25,894	11,558	14,336	4,722
Office furniture and equipment	729	511	218	385
Leasehold improvements	12,266	8,272	3,994	5,594
Work in progress	35,005	–	35,005	78,387
Total property and equipment	<b>\$ 868,294</b>	<b>\$ 498,349</b>	<b>\$ 369,945</b>	<b>\$ 405,921</b>
Intangible assets:				
Externally acquired software	\$ 4,484	\$ 3,731	\$ 753	\$ 1,664
Internally developed software	17,309	8,559	8,750	2,438
Work in progress	3,346	–	3,346	7,267
Total intangible assets	<b>\$ 25,139</b>	<b>\$ 12,290</b>	<b>\$ 12,849</b>	<b>\$ 11,369</b>
Total property and equipment and intangible assets	<b>\$ 893,433</b>	<b>\$ 510,639</b>	<b>\$ 382,794</b>	<b>\$ 417,290</b>

The cost and accumulated amortization of property and equipment as at March 31, 2010 amounted to \$857,744 and \$451,823, respectively, while the cost and accumulated amortization of intangible assets amounted to \$20,705 and \$9,336, respectively.

During the year, CATSA acquired \$50,191 (2010 – \$111,920) of property and equipment, and \$6,002 (2010 – \$5,868) of intangible assets. This includes an amount of \$211 (2010 – \$950) relating to asset retirement obligations incurred during the year. The aggregate amount of intangible assets subject to amortization and acquired during the year amounted to \$1,204 (2010 – \$796). The aggregate amount of intangible assets subject to amortization and developed internally during the year amounted to \$4,798 (2010 – \$5,072).

Management has determined that certain development costs relating to internally generated software no longer meet the criteria for capitalization as the scope of the project changed during the year. As a result, intangible assets totalling \$476 (2010 – \$Nil) were expensed in the Statement of Operations, Comprehensive Income and Retained Earnings.

During the year, the estimated useful life of integration costs relating to certain screening equipment was revised from seven to 10 years in order to better reflect the anticipated life-cycle management of these assets. The change in accounting estimate has been accounted for on a prospective basis and decreased the current year amortization expense by \$28,999. This decrease was completely offset by a decrease in the amortization in deferred capital funding. It is not practicable to estimate the impact of this change on amortization expense for future years.

In addition, the estimated useful lives of certain screening equipment related to the Winnipeg and Edmonton airports were reduced to reflect their expected decommissioning dates. The change in accounting estimate has been accounted for on a prospective basis and



# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 7. Property and equipment and intangible assets (continued)

increased the current year amortization expense by \$1,682. The increase in amortization expense is completely offset by an increase in the amortization of deferred capital funding. The change in accounting estimate is expected to increase the amortization expense and amortization of deferred capital funding for fiscal years 2011/12 and 2012/13 by \$1,260 and \$30, respectively. In fiscal years 2013/14 to 2016/17, the amortization expense and amortization of deferred capital funding will decrease by a total of \$2,972.

## 8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of:

	2011	2010
Capital acquisitions and equipment maintenance	\$ 34,141	\$ 66,610
Screening contractors	27,857	35,823
Employee costs	3,807	3,427
Computers and software	2,312	1,203
Taxes	1,995	946
RAIC program	491	2,024
Other	7,521	6,067
	<b>\$ 78,124</b>	<b>\$ 116,100</b>

## 9. Employee future benefits

CATSA maintains two defined benefit pension plans ("pension plans"), a registered pension plan (RPP) and a supplementary retirement plan (SRP), to provide retirement benefits to its employees. CATSA also provides other post-retirement benefits ("other benefits plan"). Pension plans benefits are based on the average of the best five 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 plans, with CATSA providing the balance of funding as required, based on actuarial valuations, with payments to the plans being made monthly.

	Pension plans		Other benefits plan	
	2011	2010	2011	2010
<b>Change in fair value of plan assets</b>				
Fair value of plan assets, beginning of year	\$ 46,234	\$ 30,173	\$ -	\$ -
CATSA contributions	9,391	9,762	34	32
Plan participants' contributions	2,210	1,702	-	-
Benefit payments and transfers	(1,703)	(103)	(34)	(32)
Actual return on plan assets	3,823	4,700	-	-
Fair value of plan assets, end of year	<b>\$ 59,955</b>	<b>\$ 46,234</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Change in accrued benefit obligation</b>				
Accrued benefit obligation, beginning of year	\$ 38,718	\$ 25,860	\$ 4,347	\$ 2,960
Plan participants' contributions	2,210	1,702	-	-
Current service cost	2,980	1,843	446	336
Interest cost	2,929	2,201	322	246
Benefit payments and transfers	(1,703)	(103)	(34)	(32)
Actuarial loss	11,684	7,215	2,432	837
Accrued benefit obligation, end of year	<b>\$ 56,818</b>	<b>\$ 38,718</b>	<b>\$ 7,513</b>	<b>\$ 4,347</b>

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 9. Employee future benefits (continued)

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 plans, as follows:

	Pension plans		Other benefits plan	
	2011	2010	2011	2010
<b>Reconciliation of funded position</b>				
Plan surplus (deficit)	\$ 3,137	\$ 7,516	\$ (7,513)	\$ (4,347)
Contribution adjustment during the year	6,428	3,040	–	–
Unamortized past service cost	459	503	139	176
Unamortized net actuarial loss (gain)	11,670	409	1,853	(588)
Accrued benefit asset (liability), end of year	\$ 21,694	\$ 11,468	\$ (5,521)	\$ (4,759)

The total accrued benefit asset for the RPP at year end was \$20,035 (2010 – \$10,729). The total accrued benefit asset for the SRP at year-end was \$1,659 (2010 – \$739).

The accrued benefit obligation and fair value of assets at year-end for plans that are in a deficit position are shown below:

	Other benefits plan	
	2011	2010
Accrued benefit obligation	\$ 7,513	\$ 4,347
Fair value of plan assets	–	–
Funded status – deficit	\$ 7,513	\$ 4,347

Based on the fair value as at December 31, assets of the pension plans consist of:

Asset category	2011	2010
Equity securities	64%	64%
Debt securities	34%	34%
Canada Revenue Agency refundable tax account	2%	2%
	<b>100%</b>	<b>100%</b>

The elements of employee future benefits costs for the year ended March 31 are as follows:

	Pension plans		Other benefits plan	
	2011	2010	2011	2010
<b>Net employee benefit cost incurred in the period</b>				
Current service cost	\$ 2,980	\$ 1,843	\$ 446	\$ 336
Interest cost	2,929	2,201	322	246
Actuarial loss	11,684	7,215	2,432	837
Actual return on plan assets	(3,823)	(4,700)	–	–
Net benefit cost incurred in the period	\$ 13,770	\$ 6,559	\$ 3,200	\$ 1,419

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 9. Employee future benefits (continued)

	Pension plans		Other benefits plan	
	2011	2010	2011	2010
<b>Net benefit cost recognized in the period</b>				
Current service cost	\$ 2,980	\$ 1,843	\$ 446	\$ 336
Interest cost	2,929	2,201	322	246
Expected return on plan assets	(3,439)	(2,018)	–	–
Amortization of past service cost	43	43	36	36
Amortization of net actuarial loss (gain)	39	(111)	(8)	(71)
Net benefit cost recognized in the period	\$ 2,552	\$ 1,958	\$ 796	\$ 547

Total cash payments for employee future benefits for 2011, consisting of cash contributed by CATSA to its funded pension plans and cash payments directly to beneficiaries for its unfunded other benefits plan, was \$12,812 (2010 – \$10,773). Included in the total cash payments in 2011 was \$7,121 (2010 – \$6,300) in additional contributions to the RPP and \$760 (2010 – \$176) in additional contributions to the SRP in relation to a plan deficit identified as a result of the 2009 funding valuations.

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

	Pension plans		Other benefits plan	
	2011	2010	2011	2010
Expected rate of return on plan assets for benefit cost	6.85%	5.65%	N/A	N/A
Discount rate for benefit cost	6.75%	7.50%	6.75%	7.50%
Discount rate for accrued benefit obligation	5.75%	6.75%	5.75%	6.75%
Inflation for benefit cost	2.25%	2.50%	2.25%	2.50%
Inflation for accrued benefit obligation	2.25%	2.25%	2.25%	2.25%
Long-term rate of compensation increase (including inflation and promotion)	4.25%	4.25%	4.25%	4.25%

### Assumed health care cost trend rates

	2011	2010
Initial health care cost trend rate	8.00%	8.38%
Ultimate health care cost trend rate	5.00%	5.00%
Year ultimate rate reached	2021	2018

### Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for the year ended March 31, 2011:

	Increase	Decrease
Total cost of service and interest	\$ 208	\$ (150)
Accrued benefit obligation	\$ 1,705	\$ (1,272)

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 10. Asset retirement obligations

CATSA has identified asset retirement obligations associated with certain PBS, HBS, and NPS equipment and lease agreements. These obligations are expected to be settled between 2011 and 2018.

The undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is \$3,819 (2010 – \$7,880). The liability for the expected cash flows has been discounted using a credit-adjusted risk-free rate of between 2.47% to 4.46% (2010 – 2.47% to 4.46%).

Other assumptions used by management to determine the carrying value of the asset retirement obligations are: the rate of inflation over the expected years to settlement and market risk premiums for unforeseeable circumstances.

A reconciliation of the asset retirement obligation liability is as follows:

	2011	2010
Balance, beginning of year	\$ 7,112	\$ 11,994
Revision in estimated cash flows	(4,220)	(5,671)
Liabilities incurred during the year	211	950
Gain on settlement	(919)	(242)
Accretion expense	194	81
Balance, end of year	\$ 2,378	\$ 7,112

During the year, CATSA entered into a contractual arrangement with a vendor for the disposal of its assets. As a result, management revised its estimate of undiscounted future cash flows required to settle its asset retirement obligations in order to better reflect the costs provided within the contractual arrangement. The change in estimate decreased the asset retirement obligation and the carrying value of the related asset by \$4,220. The change in estimate was accounted for prospectively at year-end and therefore had no impact on current year amortization and accretion expenses. It is not practicable to estimate the impact of this change on accretion expense for future years.

## 11. Deferred capital funding

A reconciliation of the deferred capital funding liability is as follows:

	2011	2010
Deferred capital funding, beginning of year	\$ 414,983	\$ 407,181
Parliamentary appropriations used to finance the acquisition of property and equipment and intangible assets	54,934	115,917
Amortization of deferred capital funding	(86,191)	(108,115)
Deferred capital funding, end of year	\$ 383,726	\$ 414,983

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 12. Expenses

CATSA conducts its operations using a functional organizational structure. The Statement of Operations, Comprehensive Income and Retained Earnings presents operating expenses by mandated activity. The following table presents operating expenses by major expense type:

	2011	2010
Payments to Screening Contractors	\$ 365,442	\$ 336,260
Amortization of property and equipment	80,343	105,267
Employee costs	53,393	46,998
Equipment maintenance	38,700	38,363
Other administrative costs	30,149	30,578
Uniforms and other screening related costs	6,456	5,584
Amortization of intangible assets	3,722	2,168
Screening supplies and consumable goods	2,405	2,487
Training and certification	2,395	1,551
Communications and public awareness	1,728	3,776
RAIC	797	951
Equipment spare parts and warehousing costs	576	2,822
Accretion on asset retirement obligations	194	81
	<b>\$ 586,300</b>	<b>\$ 576,886</b>

Other administrative costs include travel expenses, non-capital computer related expenses, office supplies, professional services, insurance, lease expense, network and telephone costs.

## 13. Financial instruments

### Fair value

Fair values have been measured and disclosed based on a hierarchy that reflects the significance of inputs used in making these estimates. The hierarchy of fair value includes the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of cash is determined based on Level 1 of the fair value hierarchy. The fair value of accounts payable and accrued liabilities approximates their carrying values due to their short-term nature and the time left to maturity.

All of the financial instruments arose in the normal course of CATSA operations.

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 13. Financial instruments (continued)

### Financial instrument risk

#### (i) Market risk

Market risk is the risk that the fair market value or future cash flows of a financial instrument will fluctuate because of changes in market price. CATSA's key market risk relates to foreign exchange risk, which involves the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk results from accounts payable and accrued liabilities being denominated in a currency other than the Canadian dollar (CAD), which is the functional currency of CATSA. Although management monitors exposure to fluctuations in foreign exchange rates, it does not employ external hedging strategies to offset the impact of these fluctuations.

At March 31, 2011, accounts payable and accrued liabilities include balances denominated in the United States dollar (USD) totalling \$5,121 (CAD\$5,061) (2010 – USD\$18,831, CAD\$19,124).

Assuming all other variables remain constant, a 5 percent depreciation or appreciation of the USD against the CAD would result in an increase/decrease in net earnings of \$248 (2010 – \$956).

#### (ii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. CATSA manages its liquidity risk by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and funding activities. Liquidity risk is low since CATSA does not have debt instruments to service and receives regular funding from the Government of Canada.

The financial liabilities below represent the maximum liquidity risk exposure for CATSA. The following tables summarize the contractual maturities of these financial liabilities:

	Less than 3 months	3 to 6 months	6 months to 1 year	2011
<b>Accounts payable and accrued liabilities</b>	<b>\$ 77,031</b>	<b>\$ –</b>	<b>\$ 1,093</b>	<b>\$ 78,124</b>

	Less than 3 months	3 to 6 months	6 months to 1 year	2010
Accounts payable and accrued liabilities	\$ 114,299	\$ 164	\$ 1,637	\$ 116,100



# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 14. 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

2012	\$	13,616
2013		9,886
2014		6,091
2015		4,635
2016		3,971
2017 and thereafter		6,609
	\$	44,808

### Other contractual obligations

CATSA is committed under various contracts for equipment purchases, screening services and equipment maintenance, subject to authorized appropriations. The obligations are as follows:

#### Year ending March 31

2012	\$	342,809
2013		65,069
2014		30,354
2015		23,495
2016		20,596
2017 and thereafter		31
	\$	482,354

## 15. Related party transactions

CATSA is related in terms of common ownership to other Government of Canada departments, agencies and Crown corporations. CATSA enters into transactions with these entities in the normal course of operations and pursuant to authority given in the *CATSA Act*. These related party transactions are transacted based on normal trade terms applicable to all individuals and enterprises and are measured at exchange amounts.

At March 31, 2011, CATSA owed related parties \$1,600 (2010 – \$1,782) which have been recorded in accounts payable and accrued liabilities. The liabilities are non-interest bearing, unsecured, due and payable at year-end.

At March 31, 2011, the Government of Canada owed CATSA \$69,227 (2010 – \$110,939) which have been recorded in accounts receivable. The amounts owing are in relation to parliamentary appropriations and taxes recoverable and are non-interest bearing, unsecured, due and receivable at year-end.

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 16. Capital management

CATSA relies upon capital and operating appropriations from Parliament to support its financial obligations and strategic requirements. As a Crown corporation, CATSA is subject to the *Financial Administration Act* which, in general, restricts it from borrowing money.

CATSA's primary objective in managing capital is to provide sufficient liquidity to support its financial obligations and its operating and strategic plans. This is accomplished in accordance with the Treasury Board Secretariat's *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations* in that appropriated funds are drawn from the Consolidated Revenue Fund in order to meet short-term funding requirements.

CATSA defines and computes its capital as:

	2011	2010
Cash	\$ 7,335	\$ 3,512
Accounts receivable	70,725	112,588
Accounts payable and accrued liabilities	(78,124)	(116,100)
	<u>\$ (64)</u>	<u>\$ -</u>

CATSA's objectives, policies, and processes for managing capital are unchanged since March 31, 2010. CATSA is not subject to externally imposed capital requirements.

## 17. Net change in non-cash working capital balances and supplementary cash flow information

The net change in non-cash working capital balances is as follows:

	2011	2010
Decrease (increase) in accounts receivable	\$ 20,652	\$ (19,815)
Decrease (increase) in inventories	(2,090)	738
Decrease (increase) in prepaid expenses	182	(5)
Increase (decrease) in accounts payable and accrued liabilities	(5,536)	24,715
	<u>\$ 13,208</u>	<u>\$ 5,633</u>

Interest income received and recognized for the year ended March 31, 2011 amounts to \$445 (2010 – \$198).

The change in accounts receivable excludes an amount of \$21,211 (2010 – \$23,233) in relation to capital funding.

The change in accounts payable and accrued liabilities excludes an amount of \$32,440 (2010 – \$21,355) in relation to the acquisition of property and equipment and intangible assets.

Non-cash investing activities include non-cash proceeds of \$1,045 (2010 – \$643) relating to the disposal of property and equipment, in the form of credit notes from a supplier. In addition, a prepaid deposit of \$Nil (2010 – \$238) was used in the current year relating to the acquisition of property and equipment.

# Notes to the Financial Statements

Year ended March 31, 2011  
(Thousands of dollars)

## 18. 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 fails to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense is recorded in CATSA's financial statements. As at March 31, 2011, an amount of \$18 (2010 – \$30) was recognized in relation to these contingent liabilities.

CATSA is also subject to periodic tax audits by various tax authorities. To the extent it is likely CATSA will be subject to a tax assessment as a result of a tax audit, and the amounts can be reasonably measured, a provision is recognized in the financial statements. In the current year, a provision of \$266 (2010 – \$Nil) has been accrued and expensed in relation to the estimated assessment arising from a provincial sales tax audit conducted during the year.

CATSA has been named as a defendant in a legal action claiming damages. Although no amount has been included within the statement of claim, legal counsel has advised management that the claim is for several million dollars. Management is of the opinion that there is a strong defence against the claim. Accordingly, no provision for losses has been recognized in the current year in relation to this matter.

## 19. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2011.