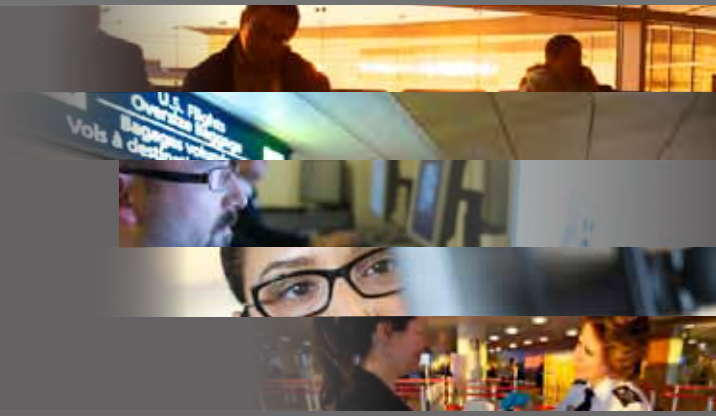


# SHAPING THE FUTURE

ANNUAL REPORT 2012

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# GLOSSARY



**ASSA** Airport Screening Services Agreement: the contractual agreement that governs CATSA's airport screening services with a designated screening contractor

**BPSS** Boarding Pass Security System: a stand-alone technology that scans boarding passes to validate the information embedded in the bar code

**Canada's eight busiest airports**

In alphabetical order: Calgary International, Edmonton International, Halifax (Stanfield International), Montreal (Pierre Elliott Trudeau International), Ottawa International, Toronto (Lester B. Pearson International), Vancouver International and Winnipeg (James Armstrong Richardson International)

**Canada's 28 major airports**

Includes the "busiest airports" above, as well as (in alphabetical order): Charlottetown, Fredericton International, Gander International, Iqaluit, Kelowna, London International, Greater Moncton International, Prince George, Quebec City (Jean Lesage International), Regina International, Saint John, St. John's International, Saskatoon (John G. Diefenbaker International), Greater Sudbury, Billy Bishop Toronto City, Thunder Bay International, Victoria International, Erik Nielsen Whitehorse International, Windsor International and Yellowknife

**EDS** Explosives Detection System: the specialized equipment used to screen passengers' checked baggage

**FBS** Full Body Scanner: a voluntary scanning technology that detects the presence of threat objects on passengers

**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

# CATSA AT A GLANCE

<b>52,000,000</b>	passengers screened
<b>5,400</b>	screening officers across Canada
<b>3,000</b>	screening officers re-certified
<b>200</b>	new screening officers trained and certified
<b>115</b>	checkpoints
<b>314</b>	screening lanes
<b>89</b>	designated airports across Canada



## Winnipeg James Armstrong Richardson International Airport

Every year CATSA's annual report features photographs from one of Canada's designated airports. This year we focus on Winnipeg James Armstrong Richardson International Airport.

This past year was an important and exciting one for Winnipeg International as it launched a new terminal building showcasing the airport's growth and innovation. Developed for efficiency, the new terminal is the largest single construction project in Winnipeg's history.

The new terminal includes modern design elements and the highest standards of energy efficiency. In fact, Winnipeg is the first airport terminal in Canada—and only the second in North America—to receive a Leadership in Energy and Environmental Design certification.

CATSA worked closely with the Winnipeg Airport Authority from the time construction began in 2007 to outfit the new security screening checkpoints and ensure enough space for screening operations to support the opening of the new terminal.

The airport authority graciously allowed CATSA to hold its third annual public meeting in the new terminal just after it opened in December.

The airport is an important transportation hub and the primary international airport for a large area. It serves 3.4 million passengers annually with flights to major cities across Canada, the US, the Caribbean, Panama, Mexico and Iceland.

# CORPORATE PROFILE



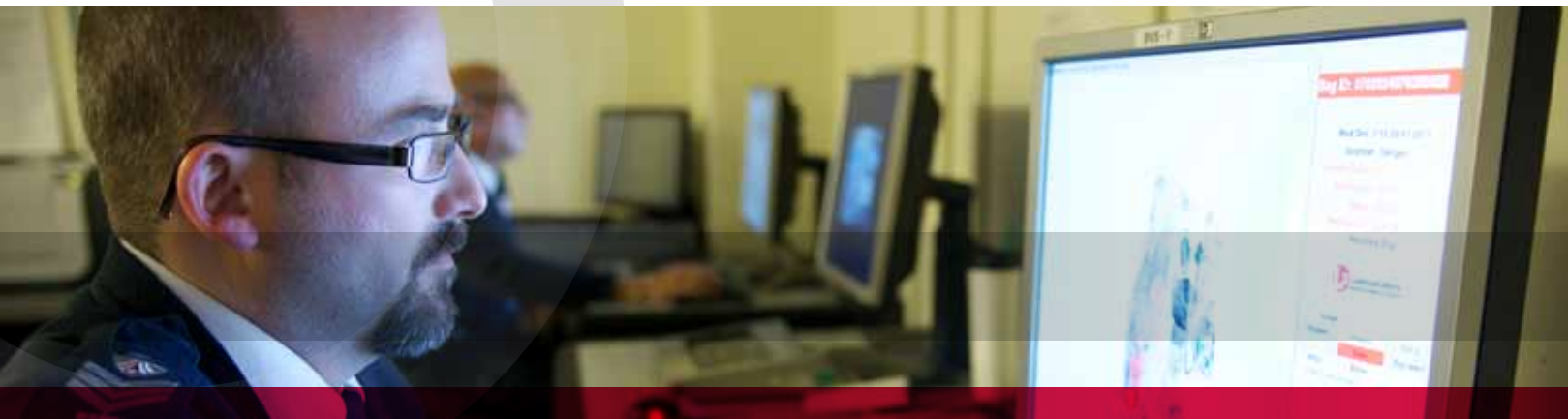
Established as a federal Crown corporation on April 1, 2002, the Canadian Air Transport Security Authority's (CATSA) mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada.

Fully funded by parliamentary appropriations, CATSA is accountable to parliament through the Minister of Transport, Infrastructure and Communities. We are governed by a board of directors and our operations are directed by a senior management team. We are mandated to deliver screening at 89 designated airports across Canada and do so through a third-party screening contractor model. Screening officers, who are employees of our screening contractors, are the public face of CATSA and their performance is critical to our mission. Together with our screening contractors, we have built an organizational culture based on teamwork, continuous improvement and operational excellence.

Playing a key role in securing Canada's air transportation system, CATSA delivers the following four mandated responsibilities at 89 designated airports across Canada:

## Pre-Board Screening (PBS)

PBS is the most public and visible of our mandated activities. At airport checkpoints across the country, passengers and their belongings are screened before they enter the secure area of an airport terminal. Screening officers use a variety of screening technologies and procedures to ensure that no objects or materials that are on Transport Canada's *Prohibited Items List* are taken on board an aircraft. Investments in new leading-edge technology and training of the screening officer workforce, combined with continuously improving operational procedures, allow us to remain compatible with our international partners in aviation security.





## Hold Baggage Screening (HBS)

In addition to screening passengers and their carry-on baggage, screening officers use specialized equipment to screen passengers' checked baggage to prevent the boarding of prohibited items. We integrate HBS equipment into the airport's baggage handling system, oversee equipment operation and maintenance, and manage screening officer training on the detection equipment. We also conduct ongoing testing and evaluation of new equipment and technologies and undertake performance measuring and monitoring of our HBS processes and systems.

## Non-Passenger Screening (NPS)

As directed by Transport Canada, screening officers randomly conduct screening of individuals accessing restricted areas at Canada's major airports. Non-passengers include flight and cabin crews, airline customer service personnel, caterers, maintenance personnel, baggage handlers, vendors and other airport service staff.

## Restricted Area Identity Card (RAIC)

Designed and maintained by CATSA, the RAIC program is the world's first dual biometric (iris and fingerprint) 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 2007, the RAIC program covers Canada's busiest airports.

Each of these activities is carried out effectively, efficiently, consistently and in the public interest.



# MESSAGE

## FROM OUR CHAIR



CATSA and its front-line security operations across the country went through an important transitional year in 2011/12; one in which CATSA successfully transformed its challenges into key opportunities to shape the future of the organization and aviation security in Canada.

The board worked closely with CATSA's management team on a number of initiatives, most notably, the new contracts with screening contractors. In line with its new streamlined service delivery model—four regions of similar activity and size—CATSA awarded four long-term contracts for screening services in Canadian airports, which have now successfully come into effect.

This year we also welcomed a new president and CEO, Angus Watt. The board is very confident Mr. Watt will lead the organization to continued success, as it begins its second decade of operation.

On behalf of the board, I would like to thank his predecessor, Kevin McGarr. CATSA has benefitted greatly from his exceptional leadership and passion over the past three years as CEO and for his many contributions to the organization during his nine years at CATSA.

Since the last publication of our annual report there have been a number of changes to the membership of the board. I would like to thank Denis Jacob and Gaetane Hains for their significant contribution to the board and to CATSA. We also welcomed two new directors—Jean-Marc Dufour from Ville de Saguenay, Québec and Allan Rowe of Bedford, Nova Scotia.

At the time of writing this message, the government is engaged in efforts to select a new chair to guide CATSA into the future. That individual will find an organization that has made great strides in overseeing and improving aviation security in Canada. It has been a team effort on the part of all CATSA employees, screening officers, screening contractors, our government and industry partners.

As I end my term as Chair of the Board, I reflect back on the past five years and all the challenges CATSA has addressed over that period. To the management and staff of CATSA, you have done your jobs well and should feel proud of your efforts to position CATSA for the future. To my board colleagues, Canadians need to know of your dedication and professionalism in fulfilling your responsibilities as directors. It was a privilege to work with all of you. Thank you for your support.

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

D. Ian Glen, Q.C.

# MESSAGE FROM OUR PRESIDENT AND CEO



This year CATSA will mark its 10<sup>th</sup> anniversary of operation. With a decade behind us, we are now working in a more mature aviation security environment—one where we must widen our service approach to include the needs of industry and a focus on the passenger experience. Our accomplishments in 2011/12 will have a profound impact on the future of the organization and better position CATSA to meet the demands and challenges that lie ahead.

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*As always, we remain steadfast in our mission. The security of the travelling public is paramount to CATSA and we will continue to strive for operational excellence in all that we do.*

Our most important accomplishment this year was the successful transition to new contracts for screening services in airports across Canada—a transition that followed a lengthy and rigorous procurement process unprecedented at CATSA. These new, performance-based contracts are transforming our relationship with our screening contractors, realizing savings and giving us the opportunity to improve the quality and delivery of service at the screening checkpoint.

This year we also initiated a 10-year recapitalization of our HBS system to ensure it is compatible with those of our international counterparts and that we follow the highest industry standards and practices. We involved our partners in airports from the beginning and are committed to working closely with them throughout the process to ensure the transition is completely seamless to the travelling public.

Having laid the foundation in previous years for effective collaboration with our partners and stakeholders, in 2011/12 year we took it a step further. We developed a process to share information about [wait times](#) at the screening checkpoint and we now have the ability to better align our schedules with passenger demand. We also invested in innovation in many areas—from our training programs to new screening technologies and processes. Together these efforts are helping shape the checkpoint of the future and improve air travel for passengers.



However, we still face a number of challenges, not the least of which is continuing to operate effectively, which is our primary objective, and in a way that meets both passenger and industry expectations, while remaining within our existing resources in an industry forecasting constant growth. CATSA will continue to work with Transport Canada to address these pressures.

As always, we remain steadfast in our mission. The security of the travelling public is paramount to CATSA and we will continue to strive for operational excellence in all we do. While we are proud of our security record over the past 10 years, we also believe in the need for continuous improvement. As we work to further increase the effectiveness of our pre-board screening operations we will also look for ways to improve the overall passenger experience, while maintaining a high level of security.

In addition, we will continue to focus on our core business and ensure our efforts are aligned with our strategic direction. In doing so, we will better adapt to change ensuring CATSA remains a flexible and resilient security organization. This year we will also review our employee compensation program so we continue to attract the best people. Our employees are CATSA's greatest asset and our goal is to remain an employer of choice.

Thank you to all CATSA employees for their dedication, passion and hard work. I would also like to thank screening officers across the country. As a key component of Canada's defence against threats to aviation security, their task must be carried out consistently and effectively, maintaining constant vigilance in the face of increasingly complex threats and demanding work environments. Finally, thank you to our partners in the aviation community for their ongoing commitment and support.



Angus Watt

# ANNUAL HIGHLIGHTS



During 2011/12, CATSA realized a number of notable accomplishments that will improve its operations. Many of these achievements laid the foundation for CATSA to respond to evolving threats, realize further efficiencies in the coming years, make the best possible use of our resources and continue to improve the passenger experience.

## Enhancing our service delivery model

### *New Airport Screening Services Agreements (ASSAs)*

This past year CATSA initiated its largest competitive process ever for airport screening services to improve our service delivery model. November 1, 2011 marked the successful and seamless transition to the new agreements.

For the first time in almost a decade these new long-term agreements offer the opportunity to transform our relationship with our screening contractors. Within this framework, we will be able to implement change, improve the quality of our service delivery and create a screening process that better combines effectiveness with customer service. A key element of the new ASSAs is the Performance Program for screening contractors, aimed at achieving a more efficient use of resources through performance-based incentives.

The following companies are now responsible for delivering screening services at designated airports in Canada:

- Pacific Region (British Columbia and Yukon): G4S Secure Solutions (Canada) Ltd.;
- Prairies Region (Alberta, Saskatchewan, Manitoba and Northwest Territories): Garda Security Screening Inc.;
- Central Region (Ontario): Garda Security Screening Inc.; and
- East Region (Quebec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, and Nunavut): Securitas Transport Aviation Security Ltd.





### *A Collaborative Approach to Screening*

Strengthening our stakeholder relationships is an important part of striving for operational excellence and it remained a key focus of our operations this year. To successfully carry out our security screening programs we work closely with our regulator, Transport Canada, as well as other government organizations, law enforcement authorities and partners. In fact, our operations are contingent on building and maintaining collaborative and strategic relationships with our stakeholders and partners in the air transport industry.

This past year we continued to expand our collaboration with airport authorities in areas such as sharing wait time information and aligning schedules to better respond to passenger volumes. We leveraged existing expertise, developed new relationships and continued to earn and maintain trust from our stakeholders and partners in the delivery of our mandate. When we work with our partners and stakeholders we are able to identify areas of shared interest, which not only benefit our respective organizations but also translate into a better air travel experience for the public.

### *The Checkpoint in Evolution*

Getting passengers through the screening process as quickly as possible and with minimal inconvenience is important to CATSA. This year, as part of the ongoing implementation of the efficiencies from the CATSA Review 2010, we continued to reconfigure screening checkpoints to increase passenger flow and find more efficient ways of serving frequent flyers, families and passengers with special needs.

We have deployed new technology and equipment, including roller tables, baggage spacing technology and split lanes, to increase care and control, thereby reducing the potential for security breaches. In addition, the new technology removes the bottlenecks in the screening process, ensuring enhanced flow of passengers and their baggage.

In partnership with the Canada Border Services Agency (CBSA) and Transport Canada, in 2010/11 CATSA established the Trusted Traveller CATSA Security Line (TTCSL) at many of our domestic and international PBS checkpoints at Canada's eight busiest airports. These designated screening lines leverage well-recognized background check security programs (NEXUS and Transportation Security Clearance) and allow pre-approved, low-risk travellers to enjoy an expedited security screening process through a dedicated queue and screening line.

In support of the joint Canada-US declaration *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness*, announced in December, CATSA expanded the use of TTCSL screening lines at Canada's eight busiest airports to include PBS checkpoints with US-bound flights.

## Investing in Innovation

### *Hold Baggage Screening System Recapitalization*

As announced in Budget 2011, CATSA was allocated additional capital funding to initiate a 10-year lifecycle management program of our HBS system in close cooperation with airports. This is a significant achievement for CATSA, as our existing HBS machines—which were installed between 2002 and 2006—are now reaching the end of their lifecycle. In addition, technology is changing, as are international standards in regard to HBS. This initiative will ensure our HBS technology remains compatible with our international partners and employs the best industry practices and standards. We have started working closely with airport authorities to develop scheduling plans, consulting with the eight busiest airports in Canada. We will conduct similar consultations with the 28 other major airports during the next phase. For now, priority will be given to HBS at Canada's eight busiest airports as we move toward full harmonization between Canada and the US to resolve connecting baggage issues.



As part of *Beyond the Border*, CATSA worked with Transport Canada to develop an accelerated deployment plan and eliminate the need for duplicate baggage screening under current regulations.

We will continue to work with all stakeholders in our planning to ensure this undertaking is seamless to the public and does not have an impact on either security or capacity during the transition.

### *CATSA's SMART System*

Launched in May 2011, the Service Monitoring and Recording Tool (SMART) System supports the management of security incidents, passenger claims and complaints and equipment maintenance. SMART has been deployed nationally to replace the Call and Incident Data Collection (CIDC) System, and provides a roster of new functions to increase efficiency and operational effectiveness.

As an important part of CATSA's response to the Office of the Privacy Commissioner's Audit Report 2011, the SMART System is undergoing formal certification and accreditation, including a privacy impact assessment (PIA) and a threat risk assessment. We will ensure recommendations made through the PIA process are considered and implemented to mitigate any identified risks to an acceptable level.

### *Training Enhancements*

Screening officers are CATSA's most important resource when it comes to finding prohibited items at the screening checkpoint.

To help screening officers keep their skills sharp, CATSA has invested in learning technologies that allow them to practice their X-ray image and interpretation skills. The X-Ray Tutor (XRT) is a learning technology that uses real threat images. This year CATSA upgraded the XRT program to a newer version—XRT3—that provides significant enhancements to ensure screening officers are trained to react in real life situations. It also assesses the user's performance on each session and adapts the training algorithm for subsequent sessions to ensure that areas of concern are practiced more often. Screening officers progress through the program and are exposed to increasingly complex images and configurations—ensuring they are prepared and ready to react to any situation.

### *Recurrent Learning Program*

CATSA provides screening officers with ongoing training to update their technical skills and build on the core competencies acquired during their initial training.

New this year is our Recurrent Learning Program that focuses on the balance between exceptional vigilance in security and a high level of passenger facilitation. The program helps screening officers understand how

they contribute to CATSA's goal of ensuring that security screening is not only effective and efficient, but also a pleasant experience for air travellers.

## Economic Action Plan 2012 Spending Review

CATSA participated in the Government of Canada's Economic Action Plan 2012 Spending Review. Through a review of direct program spending, we identified proposals for reductions in our operating expenditures. In doing so, we took a close look at our operations to find efficiencies at every level.

As announced in Budget 2012, a total annual cost savings of \$59.7 million was identified for CATSA—a reduction of roughly 10 per cent to our budget.

The security of the travelling public is paramount to CATSA. Throughout this process, we ensured these measures will not have an impact on the high level of security we currently provide at Canadian airports.

The continued implementation of the results of the 2009 Strategic Review and CATSA Review 2010 has made CATSA's operations more efficient and allowed us to optimize our human resources. Following this latest exercise, CATSA will continue to ensure our resources are focused on core activities and that we implement simplified regional and management structures to limit duplication.

## CATSA in the Community

We know public awareness can play an effective role in helping to achieve our objectives of increasing the flow of passengers at the screening checkpoint and improving the passenger experience. We also appreciate that passengers with special needs or from diverse cultural backgrounds may have concerns about what to expect at the screening checkpoint. In 2011/12, CATSA was contacted by various special needs groups, health-care professionals and industry partners for information about the security screening process.



CATSA worked closely with them to provide tailored information to ensure all passengers arrive at the airport prepared for security screening.

In April, a group of students with special needs from l'école secondaire La Courvilloise, were scheduled to depart Quebec City's Jean Lesage Airport on a flight bound for Orlando, Florida. Before leaving for their trip, the school contacted CATSA about what the students could expect at security screening.

Screening officer Éric Dornier worked with the teachers to help the students learn basic airport security procedures and avoid surprises at the screening checkpoint. Thanks to these efforts, the students were well-prepared for their travels and their experience at the security screening checkpoint was positive.

CATSA participated in a travel-themed education day in May for an ostomy care centre in Burnaby, B.C. Vancouver oversight officers Tara Quinton and Michelle Mitchell spoke about what passengers with an ostomy

can expect during security screening, what the full body scanner (FBS) shows and how a physical search is conducted. They also addressed concerns of privacy and discretion. With more than 200 people in attendance, the event proved to be an excellent opportunity for CATSA to reach these passengers.

Each year, CATSA selects a non-profit organization to sponsor through an internal fundraising campaign. Since we understand well the role that technology can play in protecting and improving people's lives and in supporting the professionals that work to achieve this, CATSA chose to support the Ottawa Hospital Foundation's purchase of a da Vinci surgical robot. The robot is the latest in surgical technology designed to make complex surgeries less invasive and assist surgeons to access hard-to-reach areas of the body with greater precision.



# CATSA

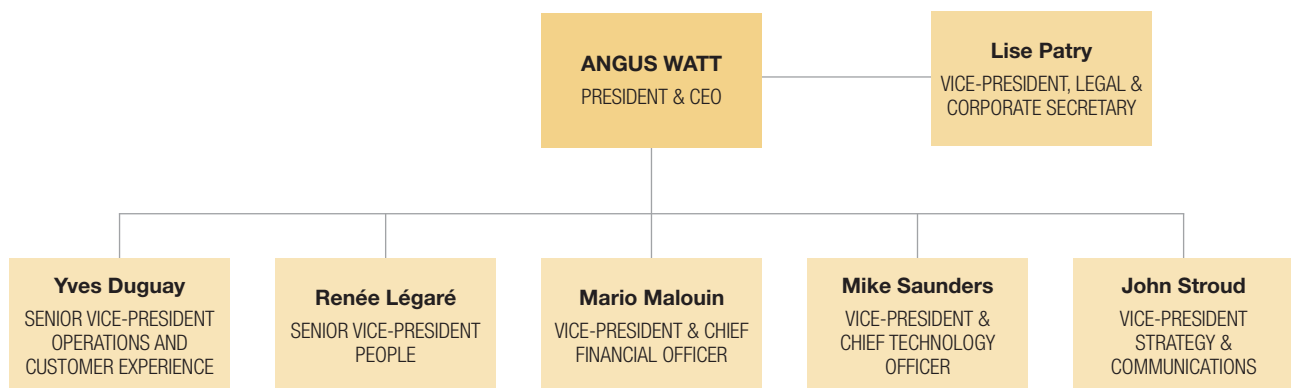
## LEADERSHIP



*Front row: **John Stroud**, Vice-President, Strategy and Communications, **Renée Legaré**, Senior Vice-President, People, **Lise Patry**, Vice-President, Legal and Corporate Secretary, **Mike Saunders**, Vice-President and Chief Technology Officer. Back row: **Yves Duguay**, Senior Vice-President Operations and Customer Experience, **Mario Malouin**, Vice-President and Chief Financial Officer, **Angus Watt**, President and Chief Executive Officer (since January 2012).*

CATSA is led by a senior management committee, headed by a president and CEO and including six vice-presidents with portfolios representing a range of responsibilities. As a results-focused organization, our executive team ensures organizational success through checks and balances of key performance indicators, published in our annual report and [corporate plan](#).

CATSA's CEO is hired by the Board of Directors to instill impartiality, accountability and effective management.



*The senior management structure as of March 31, 2012.<sup>1</sup>*

<sup>1</sup> Subsequent to March 31, 2012, CATSA restructured its senior management team. As a result, the organization reduced its number of vice-presidents from six to five. The responsibilities of the former Senior Vice-President, People have been re-allocated to the vice-presidents of the remaining branches.

# REPORTING ON RESULTS

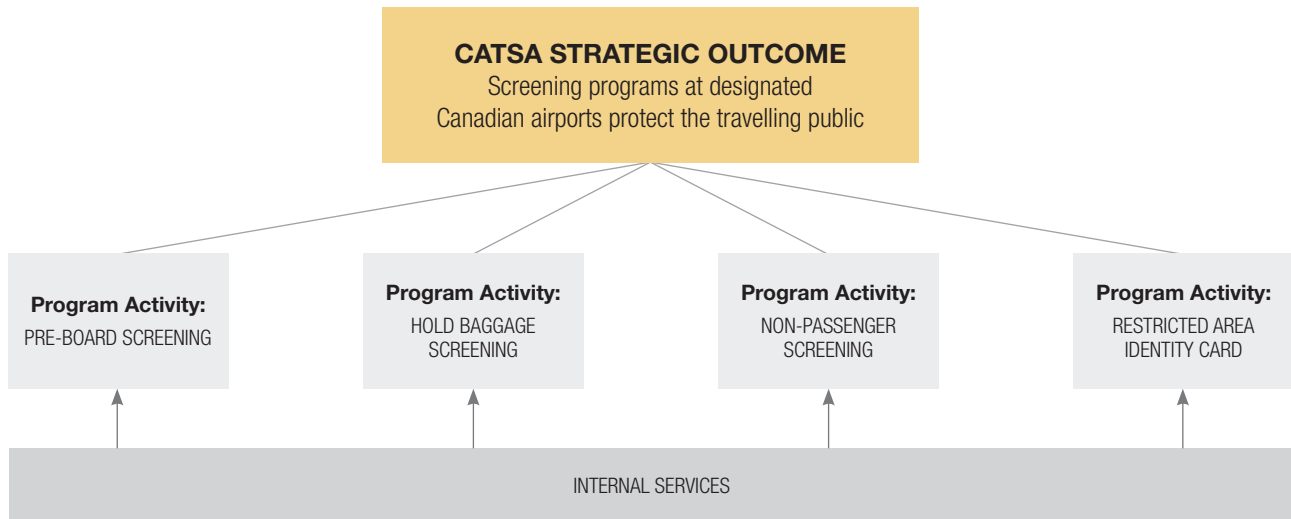
## Summary of Performance

In 2011/12, under the guidance of the Treasury Board Secretariat (TBS), we amended our Program Activity Architecture (PAA) and Strategic Outcomes in accordance with TBS's *Policy on Management, Resources and Results Structures* (MRRS), as demonstrated in the illustration.

The new PAA reflects the evolution of our mandate since its creation and ensures the continued alignment of our mandated activities with the priorities of the Government of Canada. It also focuses on achieving operational excellence, providing a high level of customer service and delivering on commitments made in the 2009 Strategic Review and CATSA Review 2010.

In line with the new PAA, we placed additional focus on the development of key performance indicators for internal services, such as Human Resources and

### CATSA's New Program Activity Architecture





Finance. Although still under development, this addition to the Performance Measurement Framework better articulates corporate performance.

This section provides an overview of CATSA's progress, achievements and performance in 2011/12 against program activities stated in the new PAA. Please note this list does not include all operational initiatives for the fiscal year 2011/12.

Due to their sensitive nature, results from PBS, HBS and NPS tests and data related to PBS security breaches are not included.

*While specifics vary between programs, CATSA assesses performance using the following criteria:*

**Effectiveness:** *The degree to which a program achieves its desired outcome.*

**Efficiency:** *The extent to which a program's resources are maximized.*

**Consistency:** *The degree to which a program's applicable Standard Operating Procedures (SOPs), operational policies and statutory, regulatory and contractual/staffing requirements are met.*

**In the Interest of the Travelling Public:**  
*The extent to which a program is conducted in the interest of the travelling public.*

Highlights for 2011/12:

- Contract award and implementation of the new ASSAs. These agreements will lead to a more efficient use of resources through performance-based incentives. Moreover, through reshaping our service delivery model and taking advantage of market competitiveness, enhanced service delivery will be achieved while securing a slightly lower billing rate from screening contractors.
- Implementation of a new maintenance contract for our screening equipment. By moving to a more effective and efficient maintenance program, including a performance-based contract with our maintenance provider, we will be able to further optimize equipment maintenance expenditures through adjustments in the approach to managing risk for our maintenance support contracts.
- Continued deployment of FBS at Canada's major airports with US-bound flights.
- Completion of a Passenger Behaviour Observation pilot project at Vancouver International Airport. CATSA shared the final results of the project in a report to the Minister of Transport, Infrastructure and Communities.
- Full deployment and enhancement of the Boarding Pass Security System at Canada's busiest airports. This technology will enable us to collect valuable information to measure performance metrics such as throughput and wait times.
- Introduction and promotion of the concept of passenger facilitation at the screening checkpoint. This initiative ensures we not only conduct screening effectively and efficiently but that we also focus on delivering the best customer service possible.
- Posting screening checkpoint wait times for Canada's busiest airports on our website. Making wait times publicly available helps passenger better prepare for their arrival at the screening checkpoint.

In 2011/12 we also continued to implement efficiencies identified in the CATSA Review 2010. These efficiencies included re-engineered and streamlined PBS checkpoints and an increase in passenger throughput to 120 passengers per hour.

## Pre-Board Screening

### Key Results

CATSA's PBS activities for 2011/12 included the adoption of new initiatives to facilitate the screening process for air travellers, identification and implementation of 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.

## PBS RESULTS

### PBS – Effectiveness

Given the sensitivity of this performance category and its associated results this data cannot be included in a public document.

### PBS – Efficiency<sup>1</sup>

Performance measure	Target	2009/10 Results	2010/11 Results	2011/12 Results	Comments
Screening Officer Attrition Levels	20.0%	23.5%	15.0%	13.9%	Overall, attrition declined slightly in 2011/12. The decrease appears greater because involuntary resignations are no longer included in the calculations.

**Definition:** For each quarter the percentage of screening officers at the eight busiest airports who were terminated, resigned, died or retired.

PBS Throughput	120	N/A	124	140	In 2011/12, PBS throughput has continued to increase as a result of the implementation of screening process improvements made following the CATSA Review 2010.  This definition of throughput is used to enable, as best as possible, a comparison between CATSA and other international counterparts.
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**Definition:** The number of passengers screened per hour per line at the eight busiest airports' PBS checkpoints during busy periods.

<sup>1</sup> In 2012/13, CATSA will refine its efficiency metrics to improve its performance reporting.

### PBS – Consistency

Performance measure	Target	2009/10 Results	2010/11 Results	2011/12 Results	Comments
Security Screening Compliance	98.0%	98.5%	99.1%	97.4%	CATSA continues to deliver screening services with a high degree of compliance to SOPs.

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

Screening Officer Recertification	90.0%	86.3%	95.8%	N/A	Due to recent improvements made to CATSA's Recurrent Learning Program, this performance measure has been replaced by the "National Training and Certification Program success rate" as a measure of PBS consistency.
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**Definition:** The percentage of screening officers at the eight busiest airports who pass PBS recertification tests and achieve all endorsements.

National Training and Certification Program success rate	90.0%	N/A	N/A	87.2%	This performance measure was first introduced in the second quarter of 2011/12 to replace the "Screening Officer re-certification" performance measure, and to align with CATSA's new Performance Program for screening contractors.  Quarterly results have been steadily improving since the introduction of the new Screening Officer Foundations (SOF) Program in the second quarter of 2011/12.
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**Definition:** The percentage of all successful attempts at screening officer training courses (number of successful attempts / number of total attempts).

Cont/.

**PBS RESULTS cont.**

PBS – In the Public Interest					
Performance measure	Target	2009/10 Results	2010/11 Results	2011/12 Results	Comments
<b>Confidence in Security Screening – Passenger Survey</b>	75.0%	73.0%	68.0%	71.0%	Confidence in security screening saw a three point increase since 2010/11. Reasons for high confidence generally relate to a sense of effectiveness in the security process and its “thoroughness.”  Note: Results for the first three quarters of 2011/12 are based on data from Montreal, Toronto, Calgary and Vancouver. Data collection was expanded to the eight busiest airports in the fourth quarter.
<i>Definition:</i> The percentage 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 seven-point scale survey.					
<b>Satisfaction with Overall Screening Experience – Passenger Survey</b>	85.0%	82.5%	80.0%	82.3%	Overall satisfaction trended upward over the first two quarters of 2011/12. There was a marginal drop in the third quarter following the transition to new screening contracts and the illegal labour disruptions at Toronto Pearson Airport over the 2011 Thanksgiving weekend. Most airports saw improvements in satisfaction scores in the fourth quarter.  Note: Results for the first three quarters of 2011/12 are based on data from Montreal, Toronto, Calgary and Vancouver. Data collection was expanded to the eight busiest airports in the fourth quarter.
<i>Definition:</i> The percentage of passengers surveyed who express satisfaction with their overall experience with security screening at select busiest airports.					
<b>Customer Service</b>	98.0%	97.0%	97.0%	N/A	As of 2011/12, this performance measure has been replaced with the Customer Satisfaction Index, outlined below.
<i>Definition:</i> Results of evaluation by oversight officers of screening officer procedural compliance to customer service-related SOPs at the eight busiest airports, including professionalism and communication.					
<b>Customer Satisfaction Index</b>	85.0%	N/A	N/A	80.5%	This performance measure was introduced in the third quarter of 2011/12 to replace the “Customer service” performance measure, and to align with CATSA’s new Performance Program for screening contractors.  Scores have been consistent overall for 2011/12. Satisfaction with professionalism of screening officers remains very high, while scores for the amount of help provided by screening officers remain comparatively lower.  Note: Results for the first three quarters of 2011/12 are based on data from Montreal, Toronto, Calgary and Vancouver. Data collection was expanded to the eight busiest airports in the fourth quarter.
<i>Definition:</i> The Customer Satisfaction Index is a measure of satisfaction with the following key customer service criteria: speed of being processed, courtesy and respect, professionalism, and help provided by screening officers.					
<b>Passenger complaints closed in &lt;30 days</b>	90.0%	83.6%	80.3%	79.8%	High profile events, such as the illegal labour disruptions at Toronto Pearson Airport over the 2011 Thanksgiving weekend, led to an increase in the number of complaints and delays in the time to process them.
<i>Definition:</i> The percentage of passenger complaints received each quarter at the eight busiest airports that are closed within 30 calendar days of receipt.					

# Hold Baggage Screening

## Key Results

HBS activities include hold baggage screening operations, continued re-capitalization of baggage screening technology, and managing capacity for contingency operations.

Highlights for 2011/12:

- Initiation of the 10-year HBS recapitalization plan. A major undertaking, the early years will focus on Canada's eight busiest airports in support of the Canada-US Perimeter Security and Economic

Competitiveness Action Plan *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness*.

- Implementation of the operational efficiencies for HBS processes. As identified in the CATSA Review 2010, emphasis will be placed on more effective and efficient use of screening resources.
- Continuation of operations and maintenance of HBS equipment at designated airports. As a key component of our mandate this activity continues to ensure baggage is screened to Transport Canada standards.

### HBS RESULTS

#### HBS – Effectiveness

Given the sensitivity of this performance category and its associated results, this data cannot be included in a public document.

#### HBS – Efficiency

Performance measure	Target	2009/10 Results	2010/11 Results	2011/12 Results	Comments
Screening Officer Attrition Levels	20.0%	23.5%	15.0%	13.9%	Overall, attrition declined slightly in 2011/12. The decrease appears greater because involuntary resignations are no longer included in the calculations.

**Definition:** For each quarter the percentage of screening officers at the eight busiest airports who were terminated, resigned, died or retired.

#### HBS – Consistency

Performance measure	Target	2009/10 Results	2010/11 Results	2011/12 Results	Comments
Screening Officer Recertification	90.0%	94.8%	93.5%	N/A	Due to recent improvements made to CATSA's Recurrent Learning Program, this performance measure has been replaced by the "National Training and Certification Program success rate" as a measure of HBS consistency.

**Definition:** The percentage of screening officers at the eight busiest airports who pass HBS recertification tests and achieve all three endorsements (as applicable) for explosives detection x-ray and computed tomography x-ray equipment.

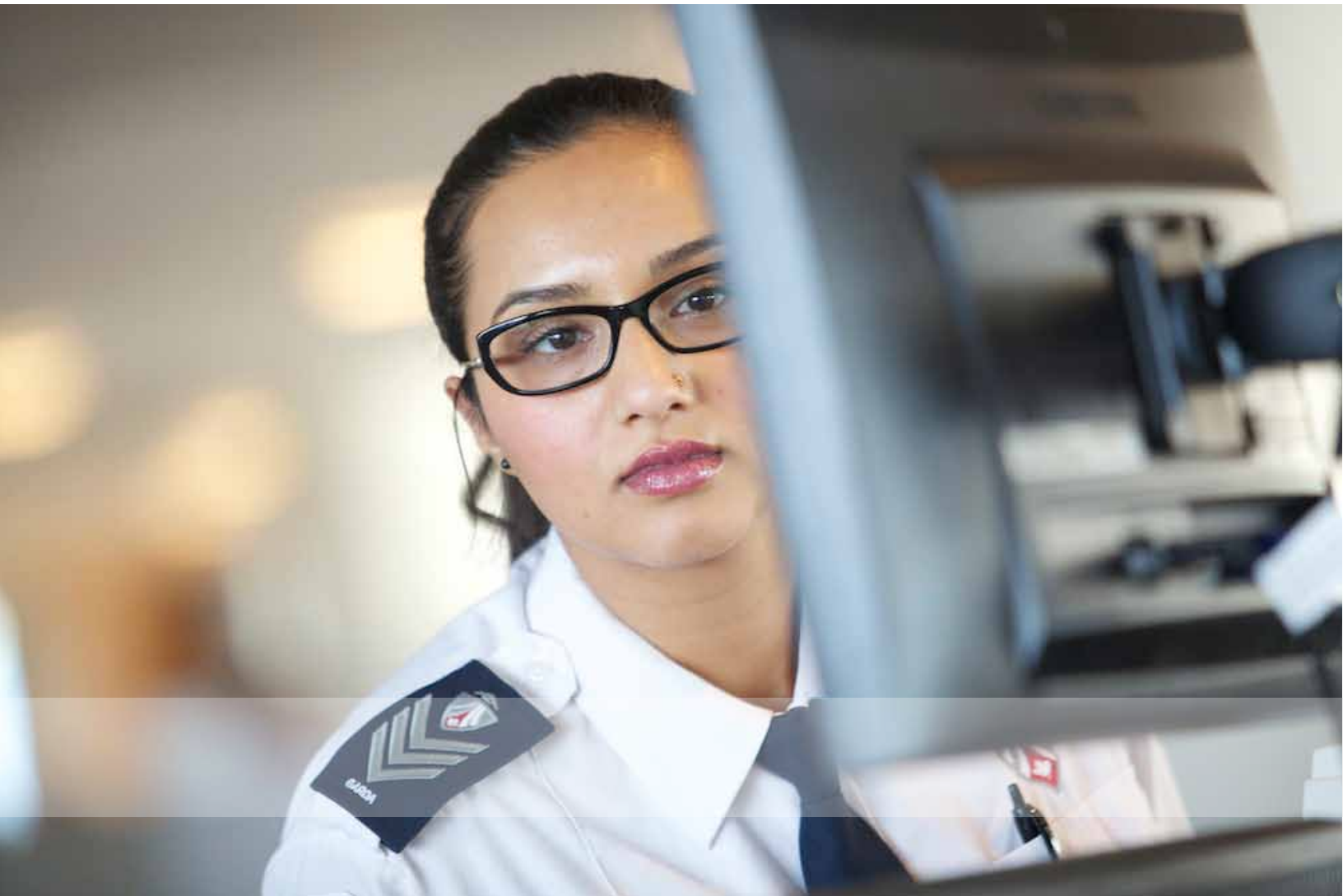
National Training and Certification Program Success Rate	90.0%	N/A	N/A	93.1%	This performance measure was first introduced in the second quarter of 2011/12 to replace the "Screening Officer re-certification" performance measure, and to align with CATSA's new Performance Program for screening contractors.  Quarterly results have been steadily improving since the introduction of the new SOF Program in the second quarter of 2011/12.
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**Definition:** The percentage of all successful attempts at screening officer training courses (number of successful attempts / number of total attempts).

#### HBS – In the Public Interest

Performance measure	Target	2009/10 Results	2010/11 Results	2011/12 Results	Comments
Confidence in Security Screening	75.0%	73.0%	68.0%	71.0%	Confidence in security screening saw a three point increase since 2010/11. Reasons for high confidence generally relate to a sense of effectiveness in the security process and its "thoroughness."  Note: Results for the first three quarters of 2011/12 are based on data from Montreal, Toronto, Calgary and Vancouver. Data collection was expanded to the eight busiest airports in the fourth quarter.

**Definition:** The percentage 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 seven-point scale survey.



## Non-Passenger Screening

### *Key Results*

We continued to make efforts to minimize the risk of non-passengers bringing prohibited items into restricted areas. These efforts include the re-deployment of screening officers from PBS to NPS checkpoints during off-peak times where possible, at busiest airports to optimize resources and improve NPS coverage.

The vehicle search pilot project at Vancouver International Airport ended on April 30, 2012 and we have been working with Transport Canada to study the results.

## Restricted Area Identity Card

### *Key Results*

In 2011/12, we maintained the biometric credential management system for the regulated use of the RAIC at major airports across Canada, providing another layer of security within the air terminal building.

To improve functionality of the RAIC system we worked with airport authorities to gather feedback. This has led to functional enhancements that improved system reliability and client satisfaction.

# TOMORROW'S CHALLENGES



As we begin our second decade of operations we remain focused on delivering our core mandate of providing screening at designated airports while improving the passenger experience at checkpoints.

We are proud to report that through the Strategic Review 2009, the CATSA Review 2010 and the Economic Action Plan 2012 Spending Review we have considerably reduced our operating budget, continued to identify and implement operational efficiencies leading to significant increases in throughput and notable achievements in customer satisfaction while maintaining a high level of security.

We will continue to work to identify further efficiencies in our operations to maximize resources. However, even with further improvements, should passenger volumes continue to grow as forecasted and 2011/12 service levels are maintained, any further gains may not be sufficient to offset the impacts of growth in passenger numbers or billing rate increases. In a climate of fiscal restraint this will be CATSA's biggest challenge in the coming years. We will continue to work with Transport Canada to address impacts on service delivery.

As a part of our ongoing efforts to streamline operations and make the best use of resources we will continue to focus on improving performance measurement results through collaborative relationships with our screening contractors. We will expand our

work with our stakeholders and partners to build on best practices, seek opportunities to work together and ensure ongoing communication. Through improved information-sharing and innovation we will look for ways to enhance operational effectiveness and efficiency, provide the best passenger experience and strive for operational excellence.

Over the coming years we will continue the lifecycle management of the HBS system. This includes phasing out non-CT technology and aligning our system with



those of the US and European Union (EU). We will work to adhere to international standards and best practices to deliver the best and most secure experience for air travellers. As part of this initiative, we will:

- work with airports in the development of our plans;
- deliver multiple projects at one location in parallel whenever possible;
- install temporary by-pass conveyors where required; and
- begin deployment projects during non-peak periods.

We are committed to ensuring a seamless transition to the new technology while maintaining the security of passengers and to the greatest extent possible minimizing disruptions to daily operational requirements.

We will also work with Transport Canada and central agencies to implement the initiatives from the Economic Action Plan 2012 Spending Review and realize the associated savings by 2014/15. We will monitor and work closely with our screening contractors to collaboratively manage potential risks.

These efforts will shape the future of our mandated programs, ensuring the best possible use of available resources in delivering our screening while maintaining high security standards, enhancing the passenger experience and building trust and confidence with our stakeholders.



# CORPORATE GOVERNANCE



2011/12 was a busy and important year for CATSA to build confidence and trust with stakeholders. Under the oversight of its Board of Directors and senior management team, CATSA successfully transformed its challenges into key opportunities to shape the very future of the organization and aviation security in Canada. Over the coming years, CATSA will continue to work in collaboration with Transport Canada, airlines and airport authorities across Canada to continue to improve aviation security operations.

CATSA is accountable to parliament through the Minister of Transport, Infrastructure and Communities, and is governed by an 11-member Board of Directors, appointed by the Governor in Council. Two of the directors are nominated from the airline industry and two from the airport industry.

As of March 31, 2012 CATSA's Board of Directors included:

- [D. Ian Glen, Chair](#)
- [Michael D. Campbell](#)
- [William Deluce](#)
- [Jean-Marc Dufour](#)
- [Denis Jacob](#)
- [John Kaldeway](#)
- [Dora Koop](#)
- [Gene McLean](#)
- [H. Glenn Rainbird](#)
- [Donald K. Robinson](#)
- [Mike H. Shaikh<sup>2</sup>](#)

<sup>2</sup> On leave of absence as of December 15, 2011.

Gaetane Hains' term expired December 1, 2011 and Jean-Marc Dufour was appointed that same day. Four directors—Mr. Kaldeway, Mr. McLean, Mr. Campbell and Ms. Koop—were re-appointed in 2011.

The board has a number of responsibilities including the following mandatory obligations:

- drafting, amending or repealing corporate by-laws (*Financial Administration Act*, s.114);
- approving CATSA's strategic direction;
- ensuring measures are in place to safeguard CATSA's resources;
- monitoring corporate performance;
- reporting to the Crown;
- approving the president and CEO's objectives for the year and evaluating his/her performance (*CATSA Act* s.17);
- ensuring the principal risks of CATSA's business are identified and that appropriate systems to manage these risks have been implemented; and
- reviewing and approving management's succession plan for senior management.

In 2011/12 the board oversaw the ASSA Request for Proposals process through quarterly updates and discussions at CATSA's board committees. Upon recommendations made by management, the board approved the successful bidders and was active in monitoring transition plans to the new screening contractors. The board also worked closely with



and provided guidance to management regarding implementation of the recommendations in CATSA Review 2010.

The board provides strategic direction to management on the corporation's financial situation through a review of CATSA's corporate plan. In addition, the board provides advice to management on CATSA's HBS recapitalization plan.

Oversight and advice to management is also provided on the corporate performance dashboard and the enhancement of CATSA's corporate governance practices.

In addition, significant activities of the board included:

- oversight of the organization's submission for the Government of Canada's Economic Action Plan 2012 Spending Review;
- leadership of the selection of CATSA's new president and CEO;
- oversight of management on CATSA's human resource initiatives; and
- oversight of CATSA's current pension plans including significant review of investment and funding;
- oversight and advice on the commencement of a comprehensive study of CATSA's pension plans and their longer term viability as presently structured.

Four standing committees assist the board in discharging its responsibilities: the [Audit Committee](#), the [Corporate Governance and Human Resources Committee](#), the [Strategy Committee](#) and the [Pension Committee](#).

The committees are governed by board-approved terms of reference and are independent from management. Each director serves on at least two committees.

### *Board Remuneration, Expenses and Attendance*

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

Total remuneration (annual retainer and per diems) paid to directors and the Chair was \$272,550 in 2011/12 compared to \$248,655 in 2010/11.

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

CATSA is committed to its obligations under the *Official Languages Act*. Employees work in an environment that respects and encourages the use of both official languages. When serving travellers in bilingual airports CATSA partners with its screening contractors to ensure an active offer of service is provided. This commitment also applies to services provided to the public by telephone or in person at CATSA headquarters.

CATSA has a number of performance measurements to determine whether frontline screening operations meet legislative requirements. Initiatives such as active offer compliance audits, passenger intercept surveys and monitoring of complaints ensure CATSA is armed with reliable and effective performance measures to drive continuous improvement.

In 2011/12 CATSA reviewed its Official Languages Policy and its application to ensure it continues to meet business and operational needs while aligning with its obligations under the *Official Languages Act*. As part of this review CATSA developed a procedural document addressing both service to the public and language of work obligations.

CATSA also developed a three-year official languages plan to ensure Part VII of the Act is taken into account when balancing legal, strategic and operational obligations.

CATSA supported *Les Rendez-vous de la Francophonie* and highlight the *Journée internationale de la Francophonie*. CATSA employees shared French language and culture in their workplace, encouraged each other to work in the official language of their choice and showed support to colleagues learning a second language.

CATSA is proud of its accomplishments and continues to promote the use of official languages in the work environment and at airports across the country.

Board Member	Board Retainer (A)	Per Diems (B)	Total Remuneration (A+B)
D. Ian Glen (Chair) <sup>1</sup>	\$ 10,800.00	\$ 52,710.00	\$ 63,510.00
Michael D. Campbell <sup>2</sup>	\$ 5,400.00	\$ 19,500.00	\$ 24,900.00
William Deluce	\$ 5,400.00	\$ 14,040.00	\$ 19,440.00
Jean-Marc Dufour <sup>**</sup>	\$ 1,350.00	\$ 5,070.00	\$ 6,420.00
Gaetane C. Hains*	\$ 4,050.00	\$ 5,460.00	\$ 9,510.00
Denis Jacob	\$ 5,400.00	\$ 18,135.00	\$ 23,535.00
John Kaldeway	\$ 5,400.00	\$ 15,990.00	\$ 21,390.00
Dora Koop <sup>3</sup>	\$ 5,400.00	\$ 15,015.00	\$ 20,415.00
Gene McLean	\$ 5,400.00	\$ 13,455.00	\$ 18,855.00
H. Glenn Rainbird <sup>4</sup>	\$ 5,400.00	\$ 22,035.00	\$ 27,435.00
Donald K. Robinson <sup>5</sup>	\$ 5,400.00	\$ 16,770.00	\$ 22,170.00
+Mike Shaikh <sup>6</sup>	\$ 4,050.00	\$ 10,920.00	\$ 14,970.00
<b>Totals</b>	<b>\$ 63,450.00</b>	<b>\$ 209,100.00</b>	<b>\$ 272,550.00</b>

1 Member of all board committees

2 Chair of Pension Committee

3 Acting Chair of the Audit Committee

4 Chair of Strategy Committee

5 Chair of Corporate Governance and Human Resources Committee

6 Chair of Audit Committee

\* Last meeting November 23, 2011

\*\* Appointed December 1, 2011

+ On leave of absence as of December 15, 2011

Board Member	Board Meetings <sup>1</sup>	Committees <sup>1</sup>			
		Corporate Governance and Human Resources	Audit	Pension	Strategy
D. Ian Glen	13/13	5/5	8/8	4/4	7/7
Michael D. Campbell	13/13		3/8	2/4	7/7
William Deluce	11/13	5/5			6/7
Jean-Marc Dufour <sup>**</sup>	2/13	1/5		1/4	
Gaetane C. Hains*	8/10	2/5		1/4	
Denis Jacob	12/13		8/8		7/7
John Kaldeway	12/13		8/8		7/7
Dora Koop	13/13	5/5	5/8		4/7
Gene McLean	12/13	5/5		4/4	
H. Glenn Rainbird	12/13			4/4	5/7
Donald K. Robinson	11/13	5/5	6/8		
+ Mike Shaikh	10/13		5/8	3/4	

1 Board and committee 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.

\* Last meeting November 23, 2011

\*\* Appointed December 1, 2011

+ On leave of absence as of December 15, 2011

Red: Indicates the director became a new member of a committee as of September

## *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 these legislations. From April 1, 2011 to March 31, 2012, CATSA received 68 requests under the *Access to Information Act*. When added to the nine outstanding requests from the previous year, CATSA processed 77 requests. Of these 69 were completed within the fiscal year and eight were carried forward to 2012/13.

In addition, from April 1, 2011, to March 31, 2012, CATSA received 16 *Access to Information Act* consultations from other federal departments. All 16 requests were completed within the fiscal year.

For the same reporting period CATSA received eight requests under the *Privacy Act* and all were completed.

### *Privacy Commissioner's Audit*

The Office of the Privacy Commissioner (OPC) conducted an audit during 2011 of CATSA's privacy policies and practices and some screening technologies.

The audit—containing 13 recommendations—was tabled in parliament in November. CATSA takes these recommendations seriously and is working closely with the OPC to ensure each one is addressed.

We have also developed and implemented an overarching policy on privacy to:

- confirm our commitment to develop best practices and procedures to enhance compliance with legislative privacy requirements; and
- establish sound management practices by delegating clear accountabilities for decision-making and managing the administration of privacy requirements.

Furthermore, a Privacy Breach Protocol has been developed to comply with TBS guidelines and assist CATSA employees when responding to a breach or suspected breach.

### *Employment Equity and Multiculturalism*

CATSA's senior management is committed to identifying and eliminating barriers to equal employment. Policies and programs are implemented where possible to make reasonable accommodations for employees and to ensure the workforce is inclusive.

CATSA produces and submits an annual report on its fulfillment of the *Employment Equity Act* and the *Canadian Multiculturalism Act*. The hiring of visible minorities has improved this year thanks to targeted advertising to visible minority communities.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) outlines the financial results and operational changes of the Canadian Air Transport Security Authority (CATSA) for the year ended March 31, 2012. This MD&A should be read in conjunction with CATSA's audited annual financial statements and related notes for the year ended March 31, 2012. The information in this report is current to June 15, 2012, unless otherwise stated.

Readers are cautioned that this report includes certain forward-looking information and statements. These forward-looking statements contain information that is generally stated to be anticipated, expected or projected by CATSA. They involve known and unknown risks, uncertainties and other factors which may cause the actual results and performance of the organization to be materially different from any future results and performance expressed or implied by such forward-looking information.

In assessing what information is to be provided in the MD&A, management applies the materiality principle as guidance for disclosure. Management considers information material if it is considered probable that its omission or misstatement, judged in the surrounding circumstances, would influence the economic decisions of CATSA's stakeholders.

The financial information reported herein has been prepared in accordance with International Financial Reporting Standards (IFRS) and is expressed in Canadian dollars, unless otherwise stated.

## Part 1 – Corporate Overview

CATSA is mandated with protecting the public through effective and efficient screening of air travellers and their baggage. CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada. The goal of the organization is to provide an effective, efficient and consistent level of security screening across the country, at or above the standards set by its regulator, Transport Canada.

To achieve this, CATSA is mandated to conduct security screening 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; 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 equivalency with its key international partners, both in terms of technologies and security screening processes.

## Legislative Framework

CATSA was established as a Crown corporation pursuant to the *Canadian Air Transport Security Authority Act* on April 1, 2002. CATSA is an agent Crown corporation, fully funded by parliamentary appropriations and 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 (ICAO).

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 *Canadian Air Transport Security Authority Act*; the *Financial Administration Act*; the *Aeronautics Act*; *Canadian Aviation Security Regulations*, as well as *Security Screening Orders* and other standard operating procedures.

## Part 2 – Operating Environment

As a Crown corporation with statutory responsibility for aviation security screening, CATSA's operations are greatly influenced by events and developments occurring both domestically and internationally. To successfully execute its mandate, CATSA must continually assess risks and develop effective mitigation strategies. A key component of this assessment includes ensuring sufficient resources are available to deliver its mandate.

### Government Funding

#### *Funding Announcements*

Budget 2011 allocated additional funding to CATSA, totalling \$156.7 million over five years for HBS

equipment upgrades. The organization also received an increase in ongoing annual reference levels of \$33.0 million starting in 2016/17 to address the lifecycle management of its HBS system.

With long-term funding commitments, CATSA was able to award new long-term agreements for airport screening services across Canada in 2011/12, and establish a long-term capital lifecycle management plan for its Explosives Detection System (EDS) equipment.

In 2011/12, CATSA participated in the Government of Canada's Economic Action Plan 2012 Spending Review. The organization reviewed its direct program spending and identified proposals for reductions in its operating expenditures. Emphasis was placed on generating savings from operating expenses and improving productivity, while also examining the relevance and effectiveness of programs. As announced in Budget 2012, the organization will achieve annual cost savings of \$59.7 million by 2014/15.

#### *2011/12 Appropriations*

With total approved funding for 2011/12 of \$519.2 million, CATSA was able to maintain screening capacities similar to the prior year with fewer operating resources. This was a result of the implementation of operational efficiencies identified through the 2009 Strategic Review and CATSA Review 2010. Furthermore, CATSA continued with the lifecycle management of its PBS equipment with multi-view technology and commenced the conversion of its HBS system to Computed Tomography (CT) technology at some of the busiest airports.

CATSA's total parliamentary appropriations used for operating and capital expenditures for 2002/03 to 2011/12 are summarized below:

Parliamentary Appropriations Used					
<i>(Millions of dollars)</i>	Seven-year total 2002/03–2008/09	2009/10	2010/11	2011/12	Total
Operating	\$ 2,078.2	\$ 472.3	\$ 512.3	\$ 486.4	\$ 3,549.2
Capital	739.7	115.9	54.9	23.2	933.7
<b>Total</b>	<b>\$ 2,817.9</b>	<b>\$ 588.2</b>	<b>\$ 567.2</b>	<b>\$ 509.6</b>	<b>\$ 4,482.9</b>

## Security Threat Environment

In the wake of the tenth anniversary of the 9/11 terrorist attacks, the world continues to be reminded of the threats against the aviation industry. Domestic and international intelligence suggest that civil aviation remains a favoured target of terrorist attacks and that Canada continues to be on active terrorist target lists.

As a security organization that was created in the aftermath of 9/11, CATSA has experienced ongoing change over the past ten years to keep pace with new threats, evolving technologies and improved international security standards. Security incidents experienced in recent years emphasize the continually evolving nature of threats to Canada's aviation system and demonstrate how terrorists continue to adapt their weapons, targets and/or means of access to known vulnerabilities. What remains unchanged since CATSA's inception is the importance of its role in ensuring the security of air travellers in Canada.

The seriousness of threats to Canada's civil aviation system is such that CATSA has been required in the past, and may be required in the future, to respond instantly to unforeseen challenges. Unanticipated threats and resulting regulatory changes can have a significant impact on operational and financial resources. As a result, it is important that CATSA have the financial and/or human resources capacity to allow the organization to respond to new requirements or exceptional events.

## Service Delivery

### *Service Delivery Model*

CATSA uses a third-party service delivery model whereby the organization does not directly employ screening officers, but rather appoints third party screening contractors to perform its mandated activities.

In January 2011, CATSA launched a Request for Proposal process for airport screening services in Canada. The process culminated on August 8, 2011, when CATSA awarded new five-year Airport Screening Services Agreements (ASSAs). Effective November 1, 2011, the following companies have been appointed as screening contractors at designated airports in Canada:

- Pacific Region – G4S Secure Solutions (Canada) Ltd.;
- Prairies Region – Garda Security Screening Inc.;

- Central Region – Garda Security Screening Inc.; and
- East Region – Securitas Transport Aviation Security Ltd.

CATSA originally awarded the contract for the Prairies Region to Aeroguard Company Ltd. On October 18, 2011, Garda Security Screening Inc. announced that it had completed an asset acquisition of Aeroguard Company Ltd. subsequent to the issuance of the new ASSAs. As a result of this transaction, CATSA approved the assignment of the ASSA in the Prairies Region to Garda Security Screening Inc.

The new four-region model is outcome-based and performance-driven, creating greater accountabilities with a focus on attaining results. This greatly enhances CATSA's ability to provide security screening that is effective, efficient and delivered in a professional and consistent manner across the country. Reducing the number of agreements from 17 to four and the number of regions from six to four enables CATSA to streamline its operations and expenditures and make the best possible use of resources, while concentrating on enhancing the passenger experience. It also allows CATSA to focus its operations and strengthen the service delivery model currently in place with third-party screening contractors.

Leading up to November 1, 2011 and throughout the remainder of 2011/12, CATSA worked closely with both new and incumbent screening contractors to manage the transition. During this period security screening at Canadian airports continued to be delivered at or above the standards set by Transport Canada, while meeting CATSA's commitment to the industry to increase throughput. CATSA continues to work closely with the new screening contractors as they turn their focus to optimizing their screening operations.

### *Labour Relations*

The transition to new ASSAs coincided with the collective bargaining process between screening contractors and the unions representing screening officers. The majority of collective bargaining agreements for screening officers expired on March 31, 2012. At the busiest airports where there was a change in screening contractor (Montreal, Vancouver, Ottawa and Halifax), the transition resulted in an open period where the unions were required to apply for certification by November 1, 2011. Screening contractors worked with the unions to ensure that working

conditions that were in place before November 1, 2011 were maintained until March 31, 2012. For the busiest airports where the screening contractor did not change (Edmonton, Calgary, Toronto and Winnipeg), the collective bargaining agreements remained valid until March 31, 2012.

Since the awarding of the new ASSAs in August 2011, CATSA has been working closely with the screening contractors to monitor the labour situation. There have been some isolated labour incidents, most notably the events over the 2011 Thanksgiving weekend at Toronto Pearson International Airport, where a limited number of screening officers engaged in an illegal work action, leading to extended wait times for passengers.

CATSA has certain responsibilities with regard to the screening officers' work, such as developing standard operating procedures and certifying screening officers. However, the organization has no direct role in labour relations and relies upon the screening contractors to establish collective bargaining agreements and manage labour conflict with their unions. Given the negative impact that screening labour unrest can potentially have on the aviation industry, CATSA, along with its screening contractors, monitors screening services closely for signs of work slowdowns, as well as legal and illegal labour action. In addition, as part of the new ASSAs, screening contractors are required to enhance their capability for maintaining effective labour relations. However, given the service delivery model, CATSA's ability to directly influence the return to normal service levels is limited.

### *Stakeholder Relations*

The Canadian economy relies heavily on the air transportation industry. An attack or serious threat to civil aviation would affect thousands of Canadian businesses that rely on the aviation transportation system for domestic and international trade.

To execute its mandate, CATSA works closely with Transport Canada, 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 the EU. The very nature of CATSA's operations and its day-to-day success in performing security screening is contingent upon relationships with these partners and stakeholders.

In line with recommendations from CATSA Review 2010, the organization is taking a more proactive and collaborative approach to managing relationships with its screening contractors and airport authorities. CATSA will continue to work collaboratively with both of these operational partners on information sharing with the common goal of continually improving operational effectiveness and efficiency, enhancing the passenger experience and creating stronger alliances. Specifically, the sharing of wait time information and the alignment of screening officers' schedules with flight departure data have served to improve the use of resources and enhance the passenger experience.

### *Customer-Focused Security*

As airlines rely more on the use of technology (e.g., self check-ins, the use of electronic boarding passes, etc.), CATSA's screening checkpoints are increasingly becoming the first point of human contact for the travelling public at Canadian airports. Therefore, passenger facilitation through the screening process is an essential element of CATSA's frontline operations. Since February 2012, passengers travelling to the US have been able to use NEXUS cards to expedite screening at Canada's eight busiest airports using designated screening lanes at PBS checkpoints, as a result of the Canada-US Perimeter Security and Economic Competitiveness Declaration.

CATSA remains committed to informing the travelling public about new or changing screening technologies and/or processes, while addressing any concerns about privacy and the screening process. Privacy is of paramount importance to CATSA. Before implementing any new program or technology, CATSA considers the extent to which the privacy of travellers could be affected, and whether there are less intrusive methods to achieve the same results.

### *Regulatory Environment*

CATSA, as a member of the international civil aviation industry, is affected by regulatory changes implemented by major security partners, such as the US and the EU. When regulatory changes are implemented by international partners, there is pressure on Canada to follow suit to minimize the disruption to passengers flying internationally. Furthermore, as a signatory country, Canada has an obligation to follow the ICAO conventions on aviation security and protocols.

In 2011/12, CATSA continued to focus on implementing efficiencies from CATSA Review 2010, including changes to Transport Canada's *Prohibited Items List*. The changes to Canada's Prohibited Items List allowed CATSA to focus its resources on higher-threat items such as explosives, thereby improving aviation security and making the passenger screening process more effective, efficient and convenient for air travellers. These changes also helped Canada to align with many of its international partners, including the US and the EU, which made similar changes in past years. Similarly, the long-term capital funding received through Budget 2010 and Budget 2011 has afforded CATSA the opportunity to maintain a long-term lifecycle management plan and, as a result, maintain EDS equivalency with international partners.

CATSA works closely with Transport Canada to monitor regulatory changes with its international partners in order to assess the operational and financial impact any possible future regulatory changes could have on Canada's aviation security system.

## Executive Changes

### *Senior Management Committee*

On January 3, 2012, Angus Watt began serving as CATSA's president and Chief Executive Officer for a five-year term. The appointment follows the retirement of former president and Chief Executive Officer, Kevin McGarr on December 31, 2011.

Subsequent to year-end, CATSA restructured its senior management team. As a result, the organization reduced its number of vice-presidents from six to five. The responsibilities of the former senior vice-president, People have been re-allocated to the vice-presidents of the remaining branches.

### *Board of Directors*

The Chair of the Board of Directors, D. Ian Glen, Q.C., ended his term in June 2012. Mr. Glen has been serving in this position since June 2007.

Subsequent to year-end, Allan Rowe was appointed to CATSA's Board of Directors as a nominee of the National Airlines Council of Canada. Mr. Rowe will assume Denis Jacob's former positions on the Strategy Committee and the Audit Committee.

## Part 3 – Economic Environment

Recovery from one of the worst global recessions in history continued to be slow in 2011/12. However, in recent months, the outlook for the global economy improved. Europe is expected to emerge slowly from the recession in the second half of 2012, although risks around this outlook remain high. The profile for US growth is slightly stronger, reflecting the balance of slightly improved labour markets, financial conditions and market confidence.

Growth in the Canadian economy is expected to be moderate, with economic expansion being driven by growth in private domestic demand. Net exports are expected to contribute only marginally to overall growth, which is reflective of modest recovery in foreign activity and Canada's ongoing competitiveness challenges, including the persistent strength of the Canadian dollar. Real gross domestic product in Canada grew by 2.4% in 2011, representing a decline from growth of 3.2% in 2010. In addition, real gross domestic product is expected to grow by 2.4% in both 2012 and 2013.<sup>3</sup>

## Passenger Growth and Cost of Inflation

Transport Canada statistics show that passenger traffic at Canadian airports increased by 3.2% in 2011 compared to 2010, and is expected to grow each year over the next five years.

Passenger traffic forecasts are based on average annual growth across Canada. However, growth does not occur uniformly at all airports. Changes in passenger traffic occur largely 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. Change in passenger traffic results in a higher demand for screening hours and increased operating expenditures.

In addition to passenger growth, screening contractor billing rates are currently expected to increase by an average of 2.9% annually. The new five-year ASSAs include an inflationary cap, which will help CATSA forecast its screening costs over the next several years.

<sup>3</sup> Bank of Canada, *Monetary Policy Report*, April 2012.



However, while CATSA has taken steps to limit increasing cost pressures in the new ASSAs, the rate increase is still greater than the increase in operating funding available in its reference levels.

## Part 4 – Capability to Deliver

Integral to aviation security is the screening of passengers, their baggage and their personal belongings to detect the presence of items that are prohibited from being brought onto aircraft and/or into restricted airport areas.

### Critical Screening Activities

Two elements which are critical to the delivery of CATSA's mandate are the screening workforce and the capital program.

#### *Screening Workforce*

Screening officers play a key role in identifying threats to aviation security. In recognition of this, significant resources are dedicated to strengthening the screening workforce.

Leveraging new technology, CATSA implemented three initiatives in 2011/12 that will enhance the base screening knowledge and ongoing competency development of screening officers, as well as achieve efficiencies in initial and recurrent training. These include:

- the transformation of the oversight program from a procedure-monitoring program to a more comprehensive oversight and quality assurance program. In alignment with the new ASSAs, the program focuses on process and performance improvements;
- significant enhancements to the standards of professional conduct for screening officers, with the objective of supporting the transition of a screening officer role from pure interdiction to passenger facilitation; and

- the deployment of a new technologically advanced Screening Officer Foundations program. The program contains both e-learning and lab-based practical training components, representing a departure from traditional classroom-based training. This allows for a more flexible training schedule and a greater focus on passenger facilitation.

#### *Capital Program*

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 recent years, CATSA has directed a significant portion of its capital funds towards the lifecycle management of its PBS equipment. Consequently, the majority of its PBS single-view x-ray units at designated airports have been replaced with more advanced multi-view technology, which has contributed to an increase in CATSA's explosive detection capabilities. Furthermore, CATSA has deployed Full Body Scanners at all PBS trans-border checkpoints with US bound flights in response to the US security measures implemented after the failed terrorist attack of December 25, 2009.

More recently, CATSA commenced the replacement of its HBS equipment as older equipment is reaching the end of its useful life. Through Budget 2011, CATSA received additional long-term capital funding for the lifecycle management of its HBS system, which will allow CATSA to convert its existing system at designated airports. This will allow for enhanced screening capabilities for HBS, and ensure HBS technological equivalency with key international partners, while maintaining the highest possible levels of baggage throughput.

In 2011/12, CATSA successfully completed the conversion of the HBS system at one of the eight busiest airports, and initiated the conversion at some of Canada's other busiest airports.

## In Support of Business

To implement its business strategies, CATSA requires robust internal systems and flexible internal resources to support all aspects of its critical screening activities.

### *Human Capital*

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. These investments serve to increase employee retention and improve job satisfaction.

In 2011/12, CATSA's approved full time equivalency (FTE) headcount was reduced by 25 FTEs from 538 to 513 as a result of operational efficiencies identified within the 2009 Strategic Review and CATSA Review 2010. In 2012/13, CATSA's FTE headcount will be further reduced by 55, from 513 to 458. CATSA will continue to streamline internal processes in order to maximize the use of existing resources.

### *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.

While planning for the new ASSAs, existing systems and procedures were reviewed to identify opportunities for continuous improvement. As a result, CATSA implemented a new Integrated Time Tracking and Invoice Processing tool that provides a more accurate picture of weekly screening hours, improves the request and approval process and reduces manual reconciliations. This tool allows for more efficient and effective processing of critical screening information.

### *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 developed and implemented a comprehensive Business Continuity Plan that is regularly updated, and is reviewed and approved by senior management. The

Business Continuity Plan 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.

During 2011/12, various security exercises were conducted to ensure CATSA and screening contractor preparedness in the event of a major incident or event. These exercises included participation from all directorates within CATSA, screening contractors, Transport Canada, airport authorities and local law enforcement. CATSA is also working to develop comprehensive contingency plans for the most likely emergency scenarios, which include namely terrorism threats to aviation and natural disasters.

## Part 5 – Managing Risk

CATSA's ability to respond to the changing operating environment is critical to the organization's success. Risk management at CATSA is a formalized, systematic approach to determine the best course of action during times of uncertainty by identifying, assessing, understanding, acting on and communicating risk throughout the organization. This contributes to risk-informed decision-making which enables CATSA to effectively manage its uncertainty and capitalize on opportunities.

CATSA's risk management program is focused on risks that may impede the organization's ability to meet the following objectives:

- (i) to deliver mandated activities in an effective, efficient and consistent manner while safeguarding the interests of the travelling public; and
- (ii) to provide services or programs in support of its mandated activities.

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 intelligence agencies. The organization'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. CATSA's major risks are summarized in the following categories: capacity, service delivery through third-party, mandated services, reputational, management systems/control systems and foreign exchange.

### *Capacity Risk*

#### **Level of service delivery**

CATSA's reference levels do not fully accommodate increases in screening contractors' billing rates, and do not accommodate passenger growth. While CATSA will continue to meet its mandate of screening passengers, there may be a financial pressure for the organization in future to accommodate increases in screening contractors' billing rates and passenger growth.

During 2011/12, CATSA has completed the implementation of operational efficiencies identified in both the 2009 Strategic Review and CATSA Review 2010, which partially alleviate this risk. Key changes include improvements to CATSA's service delivery model, operations and training delivery, as well as the re-engineering of PBS checkpoints and the streamlining of PBS processes.

### *Service Delivery Through Third-Party Risk*

#### **Labour disruptions**

CATSA outsources its services to third-party screening contractors who rely on a unionized screening officer workforce to perform security screening. There is a risk that illegal and/or legal labour disruptions may occur at some airports as a result of union activity and/or the collective bargaining process.

To address this risk, CATSA closely monitors labour developments between unions representing screening officers and screening contractors. As previously discussed, CATSA has contingency plans in place to work with screening contractors and Transport Canada to respond to labour disruptions. However, given the service delivery model, CATSA's ability to directly influence the return to normal service levels is limited.

### **Screening contractors performance**

Following the transition to the new ASSAs, CATSA continues to work closely with its screening contractors to ensure efficient and effective security screening. There is a risk that a screening contractor may not be able to meet the commitments or contract performance targets outlined in their service agreement.

To address this risk, CATSA has developed and implemented a new performance program for screening contractors, which provides incentives to deliver on commitments and to meet performance targets.

### *Mandated Services Risk*

#### **Detection capability**

CATSA's mandated activities include detecting and intercepting prohibited items, as defined by its regulator. There is a risk that CATSA may not detect all prohibited items, which may result in a threat to the civil aviation system or security breaches at airports.

To address this risk, CATSA maintains programs focused on controlling human factors as well as improving the underlying screening processes and technologies. In recent years, CATSA has made significant investments in its EDS equipment that have improved its ability to detect prohibited items. Furthermore, CATSA has implemented several initiatives to enhance the base and ongoing training of screening officers.

#### **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. CATSA may not be able to respond to threat and risk information in a timely manner or may not exercise adequate due diligence when information is received.

To address this risk, CATSA actively monitors and analyzes threat and risk information received from Transport Canada and disseminates this information to the appropriate decision makers. Detailed integrated response strategies are in place to respond to this threat and risk information based on CATSA's standard operating procedures.

## *Reputational Risk*

### **Stakeholder engagement**

Some stakeholders have raised concerns about CATSA's operations on a variety of issues and have questioned whether CATSA's mandated services provide value for money. There is a risk that CATSA's reputation may be damaged.

To address this risk, CATSA is improving the passenger experience by deploying a new lane design at designated checkpoints, responding to customer complaints in a timely manner and promoting a customer service-oriented culture. CATSA regularly liaises with industry stakeholders and has implemented a variety of communications strategies to engage its stakeholder groups and passengers.

## *Management Systems/Control Systems Risk*

### **Management of sensitive, secret or personal information**

CATSA produces, collects and maintains a multitude of sensitive, secret and personal documentation and information. There is a risk that this information, in both physical and electronic format, may be lost or disclosed inappropriately.

To address this risk, CATSA has a variety of physical security and information technology controls in place. CATSA has also established privacy related policies and procedures that promote best practices in relation to the collection, use, disclosure and disposal of personal information in accordance with applicable legislation.

### **Organizational preparedness for emergencies**

An integrated business continuity and emergency management plan is essential to ensure continuity of operations and recovery from major incidents or emergencies. As with any organization, there is a risk that CATSA's Business Continuity Plan may not be fully integrated, tested and understood in order to effectively respond to and recover from emergencies and maintain operations.

To address this risk, CATSA has recently completed a comprehensive review of its Business Continuity Plan, as previously discussed, and will test it through a series of exercises during the year.

## *Foreign Exchange Risk*

CATSA is exposed to foreign exchange risk as a result of purchasing a significant amount of equipment 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.

To address this risk, CATSA will explore hedging strategies to minimize foreign exchange risk beginning 2012/13.

## **Risk Management**

CATSA 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 that high-risk areas receive special consideration, particularly with respect to priority setting and resource allocation.

The Board of Directors and the Senior Management Committee share the responsibility for risk management. Each plays an integral role in the risk management process at CATSA.

### *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 is responsible for providing clear direction on risk attitude and approving the risk management policy as well as the corporate risk profile. It also ensures that management keeps it apprised of any changes to the profile through quarterly 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 of the annual report further discusses the roles and responsibilities of these standing committees.

### *Senior Management Committee*

The Senior Management Committee is responsible for approving CATSA's key risks, and ensuring that appropriate controls and mitigation strategies are carried out to effectively manage these risks. This role includes supporting a positive risk culture and communicating risks throughout the organization.

## Part 6 – Financial Regulatory Developments

### International Financial Reporting Standards

The annual financial statements for the year ended March 31, 2012 represent CATSA's first set of annual financial statements prepared in accordance with IFRS. CATSA's annual financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (GAAP). In preparing these financial statements, certain accounting policies previously applied in the Canadian GAAP financial statements have been revised to comply with IFRS. The comparative figures for the year ended March 31, 2011 have been restated to reflect the accounting policies adopted under IFRS. In addition, the opening IFRS Statement of Financial Position as at April 1, 2010 has been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences related to recognition, measurement and disclosures. The new significant accounting policies adopted under IFRS are disclosed in note 3 of the annual financial statements for the year ended March 31, 2012. The accounting policy changes that resulted in significant adjustments to CATSA's financial statements include employee benefits, property and equipment, decommissioning liabilities and government funding. The adjustments made by CATSA

in preparing its IFRS opening statement of financial position as at April 1, 2010, and in restating its previous Canadian GAAP financial statements for the year ended March 31, 2011, are discussed in detail within note 20 of the annual financial statements for the year ended March 31, 2012.

### Quarterly Financial Reporting

In December 2009, the *Financial Administration Act* was amended to include the requirement that all Crown corporations prepare a quarterly financial report for the first three quarters of each fiscal year, starting April 1, 2011. Subsequently, the Treasury Board of Canada Secretariat issued the *Standard on Quarterly Financial Reports for Crown Corporations* to provide guidance on the form and content of the quarterly reports. Accordingly, CATSA published quarterly financial reports for the quarters ended June 30, 2011, September 30, 2011, and December 31, 2011, which are available on CATSA's external website ([catsa.gc.ca](http://catsa.gc.ca)).

## Part 7 – Internal Controls

CATSA is committed to maintaining an effective system of internal controls that is responsive to changes in its operating environment and financial regulatory developments. Ongoing monitoring is performed through a certification program, which involves documenting and assessing the design and effectiveness of key internal controls over financial reporting. This assessment follows a risk-based approach founded 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 the Treasury Board of Canada Secretariat.

Under the certification program, management receives regular feedback regarding the state of internal controls and develops action plans for any opportunities for improvement. CATSA's Board of Directors, through the Audit Committee, receives quarterly updates on the assessment of internal controls and monitors the progress of management's action plans.

## Part 8 – Analysis of Financial Results

### Operating Expenditures

The following section provides information on key account balances within the Statement of Comprehensive Income for 2011/12 compared to 2010/11.

#### Payments to Screening Contractors

Payments to screening contractors are the most significant expenditure for CATSA, representing 71.8% of total operating expenses (excluding depreciation and amortization). These expenses consist of payments to third-party screening contractors for security screening services performed by screening officers. Key variables

impacting payments to screening contractors are the number of screening hours purchased and the billing rates.

Passenger growth and airport expansions can impact the number of screening hours purchased. In addition, evolving threats and security incidents can lead to the implementation of new security measures which can also result in a need to purchase additional screening hours.

Billing rates are determined by the ASSAs. Under the previous ASSAs, billing rates were largely driven by the cost of labour, as negotiated through collective bargaining agreements between screening contractors and the unions representing screening officers. Under the new ASSAs, billing rates are based on an all-inclusive stacked rate, as determined through the competitive bidding process. These rates are subject to an inflationary cap that restricts annual increases in billing rates to specific thresholds.

Key Financial Highlights — Statement of Comprehensive Income				
(Millions of dollars)	2011/12	2010/11	\$ Variance	% Variance
<b>Expenses:</b>				
Payments to screening contractors	\$ 348.9	\$ 365.4	\$ (16.5)	(5%)
Depreciation and amortization	86.5	82.8	3.7	4%
Direct administrative costs and corporate services	85.3	86.1	(0.8)	(1%)
Equipment maintenance, spare parts and warehousing costs	43.2	39.3	3.9	10%
Other operating costs	8.5	12.1	(3.6)	(30%)
<b>Total expenses</b>	<b>\$ 572.4</b>	<b>\$ 585.7</b>	<b>\$ (13.3)</b>	<b>(2%)</b>
<b>Total other expenses</b>	<b>8.3</b>	<b>0.6</b>	<b>7.7</b>	<b>1,283%</b>
<b>Financial performance before government funding</b>	<b>\$ 580.7</b>	<b>\$ 586.3</b>	<b>\$ (5.6)</b>	<b>(1%)</b>
<b>Government funding:</b>				
Parliamentary appropriations for operating expenses	488.5	510.3	(21.8)	(4%)
Amortization of deferred government funding related to capital	95.9	85.9	10.0	12%
<b>Total government funding</b>	<b>\$ 584.4</b>	<b>\$ 596.2</b>	<b>\$ (11.8)</b>	<b>(2%)</b>
<b>Financial performance</b>	<b>\$ 3.7</b>	<b>\$ 9.9</b>	<b>\$ (6.2)</b>	<b>(63%)</b>
<b>Other comprehensive loss</b>	<b>\$ (31.7)</b>	<b>\$ (4.4)</b>	<b>\$ (27.3)</b>	<b>(620%)</b>
<b>Total comprehensive income (loss)</b>	<b>\$ (28.0)</b>	<b>\$ 5.5</b>	<b>\$ (33.5)</b>	<b>(609%)</b>

Payments to screening contractors decreased by \$16.5 million in 2011/12. The decrease is mainly due to a reduction in screening hours purchased, partially offset by additional costs associated with higher average billing rates and other fees paid to screening contractors. The decrease is also partially offset by additional costs related to a tax assessment resulting from a supplier incorrectly invoicing CATSA for applicable sales taxes.

Screening hours purchased decreased as a result of the implementation of operational efficiencies identified through the 2009 Strategic Review and CATSA Review 2010. These operational efficiencies, combined with more effective resource scheduling, allowed CATSA to minimize the negative impact on passenger wait times resulting from passenger growth.

Average billing rates were higher primarily due to annual wage rate increases determined by the ASSAs.

### *Depreciation and Amortization*

Depreciation of property and equipment and amortization of intangible assets are recognized on a straight-line basis over the estimated useful lives of the assets.

Depreciation and amortization increased by \$3.7 million in 2011/12. The increase is partially due to a higher number of new and replacement units of capital equipment subject to depreciation in the current year. In addition, the increase is attributable to a revision of the assumptions used in measuring decommissioning liabilities, which resulted in a one-time reduction to depreciation expense in the first quarter of the prior fiscal year.

### *Direct Administrative Costs and Corporate Services*

Significant expenses for direct administrative costs and corporate services include employee costs, professional services, office and computer expenses, and rent and facilities costs.

Direct administrative costs and corporate services decreased slightly in 2011/12. The decrease is due to lower professional services and other administrative costs. The decrease is offset by severance costs accrued as at March 31, 2012 associated with the reduction in CATSA's FTE headcount and higher current service costs for CATSA's pension plan.

### *Equipment Maintenance, Spare Parts and Warehousing Costs*

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

Equipment maintenance, spare parts and warehousing costs increased by \$3.9 million in 2011/12. The increase is primarily due to annual inflationary increases in existing equipment maintenance contracts, additional costs associated with expired equipment warranty coverage, higher per unit support costs for equipment with more advanced technology and a valuation adjustment on spare parts inventory. The increase is also attributable to additional application support costs for the Boarding Pass Security System, which was installed at a higher number of airports compared to the prior year.

The increases described above are partially offset by a decrease in corrective maintenance resulting from the resolution of certain EDS equipment performance issues.

### *Other Operating Costs*

Other operating costs include Restricted Area Identity Cards, training costs for maintenance service providers, trace and consumables, uniforms and other screening-related costs such as bin and line cleaning, anti-fatigue mats and stainless steel tables.

Other operating costs decreased by \$3.6 million in 2011/12. The decrease is primarily due to lower uniform costs associated with a reduction in the screening officer workforce, lower other screening-related costs for PBS checkpoints and lower training costs associated with the deployment of new technology in the current year.

### *Total Other Expenses*

Total other expenses consist of impairment loss on equipment held for sale, loss on disposal of property and equipment, write-down of intangible assets, foreign exchange loss, finance cost, finance income and gain on settlement of decommissioning liabilities.

Total other expenses increased by \$7.7 million in 2011/12 partially due to the write-down of Mobile Screening Vehicles to their fair value less costs to sell,

resulting from their reclassification to held for sale assets. The increase is also attributable to a net loss on disposal of property and equipment during the year, primarily as a result of the elimination of the NPS Vehicle Search Checkpoint pilot project at Vancouver International Airport.

### Government Funding

CATSA is funded by appropriations for both operating and capital expenditures from the federal Consolidated Revenue Fund and draws funds according to short-term spending needs.

Operating appropriations fund expenses on a near-cash accrual basis. Accordingly, total expenses are funded excluding depreciation, amortization and other accounting adjustments.

Capital appropriations are received when assets are purchased. They are recorded as deferred government funding related to capital and are depreciated on the same basis and over the same period as the related property and equipment.

Government funding decreased by \$11.8 million in 2011/12 in correlation with decreased operating expenditures (excluding depreciation and amortization). The decrease is partially offset by an increase in the amortization of deferred government funding related to capital, resulting from a higher number of new and replacement units of capital equipment subject to depreciation in the current year as discussed.

The following table provides a reconciliation between operating expenses recorded in the Statement of Comprehensive Income and operating appropriations used.

Operating Appropriations Used			
(Millions of dollars)	2011/12	2010/11	\$ Variance
<b>Total expenses (IFRS)</b>	<b>\$ 572.4</b>	\$ 585.7	\$ (13.3)
<b>Interest income and net foreign exchange gain/loss</b>	<b>(0.6)</b>	(0.3)	(0.3)
<b>Non-cash operating expenses:</b>			
Depreciation and amortization	<b>(86.5)</b>	(82.8)	(3.7)
Employee benefits expense <sup>1</sup>	<b>3.2</b>	8.5	(5.3)
Deferred lease incentives expense <sup>2</sup>	<b>–</b>	(0.8)	0.8
<b>Parliamentary appropriations for operating expenses</b>	<b>\$ 488.5</b>	\$ 510.3	\$ (21.8)
<b>Other sources of funding:</b>			
Net change in prepaid expenses <sup>3</sup>	<b>0.9</b>	(0.2)	1.1
Net change in inventories <sup>4</sup>	<b>(3.0)</b>	2.2	(5.2)
<b>Total operating appropriations used</b>	<b>\$ 486.4</b>	\$ 512.3	\$ (25.9)

1 Employee benefits expense is accounted for in the Statement of Comprehensive Income in accordance with IFRS. Based on the Treasury Board of Canada Secretariat's *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. The amount of funding to be drawn down is determined by a solvency and going concern valuation performed by CATSA's actuary in accordance with the *Pension Benefits Standard Act*. The drawdown of funding for employee benefits is not necessarily equal to the expense for accounting purposes under IFRS, creating a reconciling item.

2 Deferred lease incentives expense is a non-cash accounting 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 when paid, creating a reconciling item.

3 Prepaid expenses are funded by appropriations when purchased, creating a reconciling item.

4 Inventories are funded by appropriations when purchased, creating a reconciling item. The net change in inventories includes a transfer from property and equipment to inventories during 2011/12.



## Other Comprehensive Loss

Other comprehensive loss consists of the net actuarial loss associated with CATSA's post-employment benefit plans. The increase in other comprehensive loss over the prior year is explained in the Employee Benefits section.

## Liquidity and Capital Resources

CATSA's financial management framework relies on parliamentary appropriations to finance operating and capital requirements, and to settle financial obligations as they become due. In determining the amount of cash reserves to carry for operating requirements, the organization considers its short-term funding requirements in accordance with Treasury Board of Canada Secretariat's *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*.

Liquidity and Capital Resources			
(Millions of dollars)	March 31, 2012	March 31, 2011	\$ Variance
Cash	\$ 5.9	\$ 7.3	\$ (1.4)
Trade and other receivables	\$ 77.5	\$ 70.7	\$ 6.8
Trade and other payables	\$ 81.2	\$ 78.1	\$ 3.1
Provisions (current)	\$ 2.2	\$ -	\$ 2.2

Cash, trade and other payables, and provisions remained comparable to the prior year. Trade and other receivables increased by \$6.8 million in 2011/12 as a result of more parliamentary appropriations being owed to CATSA at year-end.

## Capital Expenditures

Property and equipment and intangible assets represent 74.3% of total assets as at March 31, 2012. In 2011/12, capital expenditures totalled \$25.8 million, consisting of EDS and non-EDS assets as summarized.

Capital Expenditures			
(Millions of dollars)	2011/12	2010/11	\$ Variance
EDS	\$ 19.5	\$ 40.1	\$ (20.6)
Non-EDS	6.3	16.1	(9.8)
<b>Total Capital Expenditures</b>	<b>\$ 25.8</b>	\$ 56.2	\$ (30.4)
Asset acquisitions relating to decommissioning liabilities	-	(0.2)	0.2
Proceeds on disposal of property and equipment	(2.6)	(1.1)	(1.5)
<b>Total capital appropriations used</b>	<b>\$ 23.2</b>	\$ 54.9	\$ (31.7)

EDS capital expenditures included costs associated with the following projects:

- conversion of the HBS system at two of the busiest airports, and the initiation of the same upgrade at some of the other busiest airports;
- replacement of PBS and HBS single-view x-ray equipment with multi-view technology;
- purchase of EDS trace equipment; and
- deployment of split lanes at select airports to facilitate improved passenger throughput at PBS checkpoints.

Non-EDS capital expenditures included costs associated with the following projects:

- installation of the Boarding Pass Security System at Winnipeg James Armstrong Richardson International Airport and Billy Bishop Toronto City Airport;
- replacement of Closed Circuit Television cameras at various airports; and
- implementation of the Integrated Time Tracking and Invoice Processing application.

## Employee Benefits

CATSA maintains two funded defined benefit pension plans to provide retirement benefits to its employees, consisting of a registered pension plan and a supplementary retirement plan. CATSA also sponsors an unfunded post-employment benefits plan, which includes life insurance and eligible health and dental benefits.

Employee Benefits			
(Millions of dollars)	March 31, 2012	March 31, 2011	\$ Variance
Employee benefits asset	\$ 0.2	\$ 11.8	\$ (11.6)
Employee benefits liability	\$ 24.3	\$ 7.5	\$ 16.8

As at March 31, 2012, the employee benefits asset represents the excess of cumulative funding contributions over the cumulative employee benefits cost for CATSA's supplementary retirement plan. The employee benefits liability represents the excess of the cumulative employee benefits cost over cumulative contributions for CATSA's registered pension plan and the unfunded post-employment benefits plan.

CATSA's independent actuary determines each plan's net position as at March 31 of each year. The net position fluctuates from year to year due to a combination of

variables, which include the inflation rate, number of employees, discount rate, average rate of salary increases, and expected average remaining service lifetime of active employees. Note 12 of the annual audited financial statements provides further details regarding the underlying assumptions used in determining the net position.

The variance in the employee benefits asset and liability is primarily due to an actuarial loss arising from a lower than expected return on plan assets and a lower than expected discount rate on the obligation as a result of economic conditions and a change in methodology used to establish the discount rate. This is partially offset by employer contributions that exceeded the current benefit cost for the period.

## Part 9 – Financial Performance Against Plan

### Operating Expenditures

The following table provides key highlights of operating appropriations used in 2011/12 compared to the approved 2011/12 Corporate Plan budget, by major expenditure category.

Operating Appropriations Used Compared to Corporate Plan				
(Millions of dollars)	Actual 2011/12	Corporate Plan Budget 2011/12	\$ Variance	% Variance
Payments to screening contractors	\$ 348.9	\$ 344.7	\$ 4.2	1%
Direct administrative costs and corporate services	85.3	87.7	(2.4)	(3%)
Equipment maintenance, spare parts and warehousing costs	43.2	46.7	(3.5)	(7%)
Other operating costs	8.5	11.0	(2.5)	(23%)
<b>Total operating expenditures</b>	<b>\$ 485.9</b>	<b>\$ 490.1</b>	<b>\$ (4.2)</b>	<b>(1%)</b>
Other sources of funding <sup>1</sup>	(2.7)	(3.9)	1.2	31%
Non-cash accounting adjustments <sup>2</sup>	3.2	–	3.2	100%
<b>Total operating appropriations used</b>	<b>\$ 486.4</b>	<b>\$ 486.2</b>	<b>\$ 0.2</b>	<b>0%</b>

1 Other sources of funding include interest income, foreign exchange gains/losses and the net change in prepaid expenses and inventories.

2 Non-cash accounting adjustments relate to employee benefits and deferred lease incentives.

Total operating and capital appropriations used in 2011/12 were \$9.6 million less than the approved 2011/12 Corporate Plan budget. In 2011/12, CATSA transferred \$0.2 million from the capital budget to the operating budget to fund the severance costs associated with the reduction in CATSA's FTE headcount.

### Payments to Screening Contractors

Payments to screening contractors in 2011/12 were slightly higher than planned. This is primarily due to unanticipated costs related to a tax assessment resulting from a supplier incorrectly invoicing CATSA for applicable sales taxes.

Screening hours purchased were comparable to plan primarily due to the realization of earlier than anticipated passenger throughput efficiencies identified through CATSA Review 2010, which allowed CATSA to partially absorb the impact of passenger growth that was not accommodated in the 2011/12 Corporate Plan budget. Average billing rates were also comparable to plan.

### Direct Administrative Costs and Corporate Services

Direct administrative costs and corporate services in 2011/12 were slightly lower than planned. This is primarily due to lower than anticipated employee costs resulting from a lower average number of staffed indeterminate and fixed-term positions, and lower than

anticipated professional services and other administrative costs. The decrease is largely offset by severance costs associated with the reduction in CATSA's FTE headcount.

### Equipment Maintenance, Spare Parts and Warehousing Costs

Equipment maintenance, spare parts and warehousing costs in 2011/12 were \$3.5 million lower than planned. This is partially due to a stronger than expected performance by the Canadian dollar relative to the US dollar, resulting in lower equipment maintenance service costs with US vendors. Costs were also lower than planned due to a reduction in anticipated corrective maintenance costs resulting from the resolution of certain EDS equipment performance issues.

### Other Operating Costs

Other operating costs in 2011/12 were \$2.5 million lower than planned due to lower than anticipated uniform costs and usage of trace and consumables.

## Capital Expenditures

The following table provides key highlights of capital appropriations used for 2011/12 compared to the approved 2011/12 Corporate Plan budget.

Total capital appropriations used in 2011/12 were \$9.8 million less than the approved 2011/12 Corporate Plan budget.

Capital Appropriations Used Compared to Corporate Plan				
(Millions of dollars)	Actual 2011/12	Corporate Plan Budget 2011/12	\$ Variance	% Variance
<b>EDS</b>				
PBS equipment and integration	\$ 3.9	\$ 4.8	\$ (0.9)	(19%)
HBS equipment and integration	15.6	21.3	(5.7)	(27%)
<b>Total EDS</b>	<b>\$ 19.5</b>	<b>\$ 26.1</b>	<b>\$ (6.6)</b>	<b>(25%)</b>
<b>Non-EDS</b>	<b>6.3</b>	<b>6.9</b>	<b>(0.6)</b>	<b>(9%)</b>
<b>Total capital asset acquisitions (IFRS)</b>	<b>\$ 25.8</b>	<b>\$ 33.0</b>	<b>\$ (7.2)</b>	<b>(22%)</b>
Proceeds on disposal of property and equipment	(2.6)	–	(2.6)	(100%)
<b>Total capital appropriations used</b>	<b>\$ 23.2</b>	<b>\$ 33.0</b>	<b>\$ (9.8)</b>	<b>(30%)</b>

## EDS Capital

EDS capital expenditures in 2011/12 were \$6.6 million lower than planned. The lower spending was primarily due to:

- favourable pricing resulting from a competitive bidding process for the purchase of trace equipment;
- lower costs associated with the conversion of the HBS system and lower than anticipated integration costs and favourable pricing for the purchase of CT equipment;
- lower spending associated with certain EDS projects following a re-assessment of airport requirements and space limitations;
- lower spending associated with the conversion of the HBS system for two of the eight busiest airports due to project delays.

## Non-EDS Capital

Non-EDS capital expenditures for 2011/12 were comparable to plan.

## Proceeds on Disposal

Proceeds on the disposal of EDS equipment of \$2.6 million were received in the form of credit notes from a supplier. The credit notes were applied against planned capital purchases for the fiscal year, resulting in a corresponding reduction in CATSA's capital appropriations requested.

CATSA is currently working with Transport Canada to re-profile funds of approximately \$1.6 million to 2012/13. These funds are associated with the HBS projects at Halifax Stanfield International Airport and Montreal Pierre Elliott Trudeau International Airport.

## Part 10 – Five-Year Summary Financial Information

Five-Year Summary of Statement of Comprehensive Income					
(Millions of dollars)	IFRS		CGAAP		
	2011/12	2010/11	2009/10	2008/09	2007/08
<b>Expenses:</b>					
Pre-Board Screening	\$ 344.4	\$ 355.0	\$ 312.0	\$ 247.0	\$ 219.1
Hold Baggage Screening	153.8	154.2	186.7	170.9	209.4
Corporate services	53.2	54.8	50.9	41.4	38.1
Non-Passenger Screening	16.0	17.2	24.7	12.4	13.3
Restricted Area Identity Card Program	5.0	4.5	2.6	4.5	6.1
<b>Total expenses</b>	<b>\$ 572.4</b>	<b>\$ 585.7</b>	<b>\$ 576.9</b>	<b>\$ 476.2</b>	<b>\$ 486.0</b>
<b>Total other (income) expenses</b>	<b>8.3</b>	<b>0.6</b>	<b>(3.2)</b>	<b>(0.3)</b>	<b>(3.2)</b>
<b>Financial performance before government funding</b>	<b>\$ 580.7</b>	<b>\$ 586.3</b>	<b>\$ 573.7</b>	<b>\$ 475.9</b>	<b>\$ 482.8</b>
<b>Government funding:</b>					
Parliamentary appropriations for operating expenses	488.5	510.3	472.3	378.3	389.3
Amortization of deferred government funding related to capital	95.9	85.9	108.1	98.2	93.4
<b>Total government funding</b>	<b>\$ 584.4</b>	<b>\$ 596.2</b>	<b>\$ 580.4</b>	<b>\$ 476.5</b>	<b>\$ 482.7</b>
<b>Financial performance</b>	<b>3.7</b>	<b>9.9</b>	<b>6.7</b>	<b>0.6</b>	<b>(0.1)</b>
<b>Other comprehensive loss</b>	<b>(31.7)</b>	<b>(4.4)</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total comprehensive income (loss)</b>	<b>\$ (28.0)</b>	<b>\$ 5.5</b>	<b>\$ 6.7</b>	<b>\$ 0.6</b>	<b>\$ (0.1)</b>

## Five-Year Summary of Statement of Financial Position

(Millions of dollars)	IFRS		CGAAP		
	2011/12	2010/11	2009/10	2008/09	2007/08
<b>Assets:</b>					
Cash	\$ 5.9	\$ 7.3	\$ 3.5	\$ 2.0	\$ 1.6
Trade and other receivables	77.5	70.7	112.6	69.6	82.5
Inventories	18.9	21.8	19.7	20.4	17.6
Prepaid expenses	4.2	3.4	3.5	3.8	2.7
Employee benefits	0.2	11.8	11.5	2.7	2.0
Property and equipment, intangible assets and equipment held for sale	310.6	382.8	417.3	412.7	459.0
<b>Total assets</b>	<b>\$ 417.3</b>	<b>\$ 497.8</b>	<b>\$ 568.1</b>	<b>\$ 511.2</b>	<b>\$ 565.4</b>
<b>Liabilities:</b>					
Trade and other payables and current provisions	\$ 83.4	\$ 78.1	\$ 116.1	\$ 70.0	\$ 82.7
Decommissioning liabilities	2.3	2.2	7.1	12.0	5.5
Deferred government funding related to operating	23.1	25.1	–	–	–
Deferred lease incentives	1.5	1.5	0.7	–	–
Deferred government funding related to capital	310.1	382.9	415.0	407.2	456.8
Employee benefits	24.3	7.5	4.8	4.3	3.3
<b>Total liabilities</b>	<b>\$ 444.7</b>	<b>\$ 497.3</b>	<b>\$ 543.7</b>	<b>\$ 493.5</b>	<b>\$ 548.3</b>
<b>Equity:</b>					
Retained earnings	(27.4)	0.5	24.4	17.7	17.1
<b>Total liabilities and equity</b>	<b>\$ 417.3</b>	<b>\$ 497.8</b>	<b>\$ 568.1</b>	<b>\$ 511.2</b>	<b>\$ 565.4</b>

## Part 11 – Future Outlook

### Strategic Direction

CATSA's strategic direction for 2012/13 and the coming years will be focused on three main areas:

#### (i) Screening Operations

In 2011/12, CATSA awarded and transitioned to its new ASSAs with screening contractors. Through the reshaping of its service delivery model and taking advantage of market competitiveness, enhanced service delivery will be achieved while benefiting from economies of scale from its screening contractors. Cost savings from these economies of scale will be fully realized starting 2012/13.

Commencing in 2012/13, with the ASSA transition now complete, the organization will turn its focus to enhancing its relationships with screening contractors and realizing the efficiencies gained through the awarding of these new agreements. CATSA is committed to the continuous improvement of its operations and will continue to deliver its core operational activities while maximizing the efficiency and effectiveness of its resources. In addition, CATSA will work closely with Transport Canada to continue promoting and implementing a risk-based approach to aviation security screening in Canada. This approach allows the organization to focus its resources on areas of the aviation security system where they will have the greatest benefit.

#### (ii) Technology and Equipment

In 2011/12, CATSA initiated the 10-year recapitalization of its HBS system at some of

Canada's busiest airports. Under Transport Canada's direction, CATSA formulated an accelerated HBS deployment plan for trans-border checkpoints in support of the Canada-US Perimeter Security and Economic Competitiveness Declaration. With the deployment of CT technology at the majority of the busiest airports over the next three years, passengers flying from Canadian airports with US pre-clearance facilities will no longer have their baggage screened on departure from Canada and again at the connecting US airport. This change will make connections through US cities easier, while maintaining a high level of aviation security.

Commencing in 2012/13, CATSA will focus its efforts on this accelerated deployment plan. The long-term capital funding received to support this initiative represents the largest investment in CATSA's infrastructure since its inception, and will further align it with key international partners. CATSA will also continue to introduce improvements in its technology and equipment maintenance programs, as well as changes in processes in order to allocate its resources more efficiently.

(iii) Corporate Services

Commencing in 2012/13, the organization will implement efficiencies and cost savings in its corporate services. Additionally, in support of continuous improvement, the organization will continue to review its corporate management systems and processes to focus its resources to the areas of greatest need.

## Budget 2012

By 2012/13, CATSA will have fully realized the operational efficiencies stemming from the 2009 Strategic Review and CATSA Review 2010. Looking forward, CATSA will turn its focus to the implementation of the Economic Action Plan 2012 Spending Review initiatives approved in Budget 2012, with the goal of realizing annual cost savings of \$59.7 million by 2014/15.

The table below outlines the savings that will result from CATSA's Economic Action Plan 2012 Spending Review initiatives from 2012/13 to 2014/15 and beyond:

Economic Action Plan 2012 Spending Review Savings				
<i>(Millions of dollars)</i>	2012/13	2013/14	2014/15	Ongoing
	\$ 19.4	\$ 32.4	\$ 59.7	\$ 59.7

## Future Challenges

Given projected increases in screening contractor billing rates and forecasted increases in passenger volumes, CATSA may experience growing pressure to maintain current service levels. For 2011/12, CATSA was able to manage increases due to the realization of earlier than anticipated passenger throughput efficiencies as a result of implementing recommendations from CATSA Review 2010. However, based on forecasted passenger volumes for 2012/13, CATSA's operating funding levels may not be sufficient to maintain service levels commensurate with those of 2011/12. CATSA will continue to work with Transport Canada to address impacts on service delivery.

# MANAGEMENT'S RESPONSIBILITY STATEMENT

Years ended March 31, 2012 and 2011

The financial statements contained in this annual report have been prepared by management in accordance with International Financial Reporting Standards. The integrity and objectivity of the data in these financial statements are management's responsibility. Some of the information in the financial statements is based on management's best estimates and judgments and gives due consideration to materiality. 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, assets are safeguarded, and transactions are in accordance with Part X of the *Financial Administration Act* and the *Canadian Air Transport Security Authority Act*, executed in accordance with prescribed regulations within parliamentary authorities, and 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, 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.



**Angus Watt**  
President and Chief Executive Officer



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

June 15, 2012



## 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 statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended March 31, 2012 and March 31, 2011, 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 International Financial Reporting Standards, 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 audits. I conducted my audits 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 in my audits 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, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

### Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of the new standards as explained in Note 20 to the financial statements, 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 audits 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.

Michael Ferguson, FCA  
Auditor General of Canada

June 15, 2012  
Ottawa, Canada



# STATEMENT OF FINANCIAL POSITION

(In thousands of Canadian dollars)

	March 31, 2012	March 31, 2011	April 1, 2010
<b>Assets</b>			
<b>Current assets:</b>			
Cash	\$ 5,907	\$ 7,335	\$ 3,512
Trade and other receivables (note 5)	77,489	70,725	112,588
Inventories (note 6)	18,935	21,785	19,695
Prepaid expenses	4,165	3,355	3,537
Equipment held for sale (note 8)	540	—	—
	<b>107,036</b>	<b>103,200</b>	<b>139,332</b>
<b>Non-current assets:</b>			
Employee benefits (note 12)	207	11,804	5,360
Property and equipment (note 7)	298,162	369,989	404,713
Intangible assets (note 9)	11,889	12,849	11,369
	<b>310,258</b>	<b>394,642</b>	<b>421,442</b>
	<b>\$ 417,294</b>	<b>\$ 497,842</b>	<b>\$ 560,774</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities:</b>			
Trade and other payables	\$ 81,228	\$ 78,106	\$ 116,014
Provisions (note 10)	2,203	18	86
Deferred government funding related to operating (note 11)	23,100	25,140	23,232
	<b>106,531</b>	<b>103,264</b>	<b>139,332</b>
<b>Non-current liabilities:</b>			
Provisions (note 10)	2,304	2,174	6,570
Deferred lease incentives	1,481	1,497	730
Deferred government funding related to capital (note 11)	310,120	382,911	413,900
Employee benefits (note 12)	24,307	7,483	5,188
	<b>338,212</b>	<b>394,065</b>	<b>426,388</b>
<b>Equity:</b>			
Retained earnings (loss)	(27,449)	513	(4,946)
	<b>\$ 417,294</b>	<b>\$ 497,842</b>	<b>\$ 560,774</b>


Commitments (note 15) and contingent liabilities (note 19)

The accompanying notes are an integral part of these financial statements.

Approved by the board and authorized for issue on June 15, 2012:



**H. Glenn Rainbird, O.C.**  
Vice-Chairperson



**Angus Watt**  
President and Chief Executive Officer

# STATEMENT OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars)

	Year ended March 31, 2012	Year ended March 31, 2011
<b>Expenses:</b>		
Pre-Board Screening	\$ 344,431	\$ 355,052
Hold Baggage Screening	153,788	154,222
Corporate services	53,188	54,844
Non-Passenger Screening	15,972	17,159
Restricted Area Identity Card Program	5,002	4,480
Total expenses (note 13)	572,381	585,757
<b>Other (income) expenses:</b>		
Finance income	(570)	(470)
Gain on settlement of decommissioning liabilities (note 10)	(76)	(449)
Impairment loss on equipment held for sale (note 8)	5,092	–
Loss on disposal of property and equipment	3,070	838
Write-down of intangible assets (note 9)	631	476
Foreign exchange loss	115	136
Finance cost	62	69
Total other expenses	8,324	600
<b>Financial performance before government funding</b>	<b>580,705</b>	<b>586,357</b>
<b>Government funding:</b>		
Parliamentary appropriations for operating expenses (note 11)	488,471	510,341
Amortization of deferred government funding related to capital (note 11)	95,929	85,923
Total government funding	584,400	596,264
<b>Financial performance</b>	<b>3,695</b>	<b>9,907</b>
<b>Other comprehensive income:</b>		
Net actuarial loss on defined benefit plans (note 12)	(31,657)	(4,448)
<b>Total comprehensive income (loss)</b>	<b>\$ (27,962)</b>	<b>\$ 5,459</b>

The accompanying notes are an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

*(In thousands of Canadian dollars)*

	<b>Retained earnings</b>
<b>Balance, April 1, 2010</b>	\$ (4,946)
Financial performance for the year	9,907
Other comprehensive income:	
Net actuarial loss on defined benefit plans (note 12)	(4,448)
<b>Balance, March 31, 2011</b>	<b>\$ 513</b>
<b>Balance, April 1, 2011</b>	<b>\$ 513</b>
Financial performance for the year	<b>3,695</b>
Other comprehensive income:	
Net actuarial loss on defined benefit plans (note 12)	<b>(31,657)</b>
<b>Balance, March 31, 2012</b>	<b>\$ (27,449)</b>

*The accompanying notes are an integral part of these financial statements.*

# STATEMENT OF CASH FLOWS

(In thousands of Canadian dollars)

	Year ended March 31, 2012	Year ended March 31, 2011
<b>Cash flows provided by (used in):</b>		
<b>Operating activities:</b>		
Financial performance	\$ 3,695	\$ 9,907
Items not involving cash:		
Depreciation of property and equipment (note 13)	81,619	79,127
Impairment loss on equipment held for sale (note 8)	5,092	–
Amortization of intangible assets (note 13)	4,924	3,722
Loss on disposal of property and equipment	3,070	838
Write-down of intangible assets (note 9)	631	476
Unwinding of discount on decommissioning liabilities (note 10)	50	69
Amortization of deferred government funding related to capital	(95,929)	(85,923)
Net increase in employee benefits (note 18)	(3,236)	(8,597)
Gain on settlement of decommissioning liabilities	(76)	(449)
Increase (decrease) in deferred lease incentives	(16)	767
Net change in non-cash working capital balances (note 18)	(5,647)	15,116
	(5,823)	15,053
<b>Investing activities:</b>		
Parliamentary appropriations received for capital funding	31,327	76,145
Purchase of property and equipment	(22,882)	(81,375)
Purchase of intangible assets	(4,050)	(6,002)
Proceeds on disposal of property and equipment	–	2
	4,395	(11,230)
<b>Increase (decrease) in cash</b>	<b>(1,428)</b>	<b>3,823</b>
<b>Cash, beginning of year</b>	<b>7,335</b>	<b>3,512</b>
<b>Cash, end of year</b>	<b>\$ 5,907</b>	<b>\$ 7,335</b>

Supplementary cash flow information (note 18)

The accompanying notes are an integral part of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

**Years ended March 31, 2012 and 2011**  
*(In thousands of Canadian 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 baggage before accessing aircraft or restricted areas through screening points at designated airports within Canada. CATSA 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 on a random basis; and
- (4) Restricted Area Identity Card (RAIC) Program – 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), which includes the federal Goods and Services Tax (GST) and Harmonized Sales Tax (HST). CATSA is also subject to all provincial sales taxes (PST) applied by the provinces and territories in which it operates.

## 2. Basis of preparation:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. These are CATSA's first financial statements prepared in accordance with IFRS.

CATSA's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (GAAP). Canadian GAAP differs in certain areas from IFRS. In preparing these financial statements, certain accounting policies previously applied in the Canadian GAAP financial statements have been revised to comply with IFRS. The comparative figures for the year ended March 31, 2011 have been restated to reflect the accounting policies adopted under IFRS. In addition, the opening IFRS Statement of Financial Position as at April 1, 2010 has been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

An explanation of how the transition to IFRS has affected the reported financial position, total comprehensive income and cash flows of CATSA is provided in note 20.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 3. Summary of significant accounting policies:

### (a) Basis of measurement:

These financial statements were prepared under the historical cost convention except for the defined benefit pension plan assets which are recognized as the net total of the fair value of the plan assets and the present value of the defined benefit obligation.

### (b) Use of estimates and judgments:

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next year are:

- **note 3(d)(f)(g), note 7 and note 9 – Property and equipment and intangible assets**  
Key estimates used for property and equipment and intangible assets include the useful lives of assets and valuation of work-in-progress.
- **note 3(e) and note 8 – Equipment held for sale**  
The key estimate used for equipment held for sale is the fair value of the asset less costs to sell.
- **note 3(k)(i) and note 10(a) – Decommissioning liabilities**  
Key estimates used for decommissioning liabilities include the rate of inflation, the expected years to settlement and market risk premiums for unforeseeable circumstances.
- **note 3(j) and note 12 – Employee benefits**  
Key estimates used for employee benefits include expected rate of return, discount rates, inflation and the long-term rate of compensation increase.

Underlying assumptions and estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements are:

- **note 3(f) and note 9 – Intangible assets**  
Judgments are required in determining when internally generated intangible assets enter the development phase.
- **note 3(k)(ii), note 10(b) and note 19 – Disputed claims**  
Judgments are required in assessing the probability of disputed claims resulting in settlement.
- **note 3(k), note 10 and note 19 – Provisions and contingent liabilities**  
Judgments are required in determining the existence of a legal or constructive obligation and in assessing the probability that a claim will result in an outflow of future economic benefits.

### (c) Inventories:

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

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 3. Summary of significant accounting policies (continued):

### (d) Property and equipment:

Property and equipment consists of screening equipment, RAIC equipment, computers, integrated software and electronic equipment, office furniture and equipment, leasehold improvements and work-in-progress.

#### (i) Recognition and measurement:

Property and equipment are recorded at cost less accumulated depreciation, except for work-in-progress, which is recorded at cost but not depreciated until the asset is available for use. Cost includes expenditures that are directly attributable to the acquisition and installation of the assets, including integration costs related to the installation of the assets at the airports to ensure they are in a condition necessary for their intended use, and decommissioning costs associated with the disposal of certain screening equipment [note 3(k)(i)].

Work-in-progress includes costs relating to integration projects that remain incomplete at year-end. The valuation of work-in-progress at year-end is determined based on estimates performed by independent engineers or management, depending on management's assessment of risk.

When significant parts of an item of property and equipment have different useful lives, they are depreciated separately.

Gains and losses on disposal of an item of property and equipment are determined by comparing proceeds with the carrying amount and are recognized in financial performance for the year.

#### (ii) Subsequent costs:

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to CATSA and that the cost of the item can be measured reliably. The cost of day-to-day servicing of property and equipment is recognized in financial performance for the year.

#### (iii) Depreciation:

Depreciation is calculated using the straight-line method and is applied over the estimated useful lives of the assets:

Asset	Useful life
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 depreciated on a straight-line basis over the shorter of the related lease term or estimated useful life.

Depreciation methods, estimated useful lives and residual values are reviewed at each reporting date.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 3. Summary of significant accounting policies (continued):

### (e) *Equipment held for sale:*

Equipment held for sale consists of screening equipment for which its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Equipment held for sale is measured at the lower of carrying value and fair value less costs to sell. Prior to the initial classification of the equipment as held for sale, the carrying amount of the assets are measured in accordance with 3(d)(i)(ii) and (iii) as noted. An impairment loss upon initial and subsequent write-down of the asset is recognized in financial performance.

Depreciation is not recorded while an asset is classified as held for sale.

### (f) *Intangible assets:*

Separately acquired computer software licences are capitalized based on the costs incurred to acquire and bring the licences to use.

Certain costs incurred in connection with the development of software to be used internally or for providing screening services are capitalized once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by CATSA are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development of the software product and to use it are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific project. All other costs associated with developing or maintaining computer software programs are expensed as incurred.

Intangible assets are amortized using the straight-line method over their estimated useful lives of three to five years.

### (g) *Impairment:*

At the end of each reporting period, CATSA reviews its property and equipment and intangible assets to determine whether there is any indication of impairment.



# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 3. Summary of significant accounting policies (continued):

### (g) Impairment (continued):

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash inflows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. CATSA does not generate cash inflows from the use of its assets, as its operations are funded by Government appropriations on a break-even basis. Therefore, value in use will always be zero. Furthermore, there is no active market for most of CATSA's major assets due to their specialized nature. As a result, fair value less costs to sell cannot be reliably estimated.

As the recoverable amount of an asset cannot be determined, the estimated useful lives of CATSA's assets are reviewed at the end of each reporting period when an indication of impairment is observed. Any changes in estimated useful lives are recorded on a prospective basis in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

### (h) Leases:

Leases in which substantially all 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 financial performance for the year on a straight-line basis over the term of the lease.

### (i) Financial instruments:

#### (i) Non-derivative financial assets:

Non-derivative financial assets are comprised of cash. Trade and other receivables are not classified as non-derivative financial assets because they are not contractual rights but rather created as a result of statutory requirements imposed by federal and provincial governments.

CATSA classifies non-derivative financial assets into the category of loans and receivables. These financial assets are recognized initially at fair value. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest rate method.

#### (ii) Non-derivative financial liabilities:

Non-derivative financial liabilities are comprised of trade and other payables. Non-derivative financial liabilities are recognized initially on the trade date at which CATSA becomes a party to the contractual provisions of the instrument.

CATSA derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

CATSA classifies non-derivative liabilities into the category of financial liabilities measured at amortized cost. These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
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## 3. Summary of significant accounting policies (continued):

### (j) Employee benefits:

#### (i) Post-employment benefit plans:

CATSA maintains two funded defined benefit pension plans to provide retirement benefits to its employees. These include a registered pension plan and a supplementary retirement plan. CATSA also sponsors an unfunded post-employment benefits plan, the Other Defined Benefits Plan, which includes life insurance and eligible health and dental benefits. Pension 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 pension plans, with CATSA providing the balance of funding, as required, based on actuarial valuations, with payments being made monthly.

CATSA's net position in respect of these three plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The future benefit is then discounted to determine its present value. To the extent applicable, the fair value of any plan assets and any unrecognized past service costs are deducted from the present value of the future benefit. The discount rate is the yield at the reporting date on high quality bonds that have maturity dates approximating the terms of CATSA's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to CATSA, the recognized asset is limited to the total of any unrecognized past service costs and the present value of the economic benefits in the form of any future refunds from the plans or reductions in future contributions to the plans. In order to calculate the present value of the economic benefits, consideration is given to minimum funding requirements that apply to any plan. An economic benefit is available to CATSA if it is realizable during the life of the plan or on settlement of the plan liabilities.

When past service costs arise from plan improvements, the portion of the increased benefit relating to past service is recognized in financial performance for the year on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in financial performance for the year.

CATSA recognizes all actuarial gains and losses from post-employment benefits plans in other comprehensive income. Expenses related to post-employment benefits plans are recognized as employee costs in determining financial performance for the year.

CATSA recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that had not previously been recognized.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 3. Summary of significant accounting policies (continued):

### (j) *Employee benefits (continued):*

#### (ii) Termination benefits:

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. CATSA recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. If benefits are payable more than 12 months after the reporting period, the liability is determined by discounting the obligation to its present value.

#### (iii) Short-term employee benefits:

Short-term employee benefit obligations, such as salaries, annual leave and bonuses, are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized in trade and other payables for the amount expected to be paid when CATSA has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### (k) *Provisions:*

A provision is recognized if, as a result of a past event, CATSA has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### (i) Decommissioning liabilities:

CATSA recognizes a provision for future decommissioning liabilities associated with the cost of disposing certain screening equipment in an environmentally responsible manner, and the cost to restore leased premises to an agreed upon standard at the end of the lease. In the year of acquisition of the screening equipment or upon signing of the facilities lease, the decommissioning liability is calculated based on an estimate of the discounted future cash outflows. The decommissioning liability is capitalized as part of the carrying amount of the related asset and depreciated over the asset's estimated useful life.

The decommissioning liability is reviewed each reporting period to consider changes in the estimated outflow of resources embodying the economic benefit required to settle the obligation, changes in the current market-based discount rate (which includes changes in the time value of money and the risks specific to the liability) and increases that reflect the passage of time. The effect of a change in estimate is recognized prospectively and depreciated over the remaining lives of the assets to which they relate.

The unwinding of the discount is recognized as a finance cost, while changes resulting from the timing or amount of the initial estimate of future cash flows or market-based discount rate are recognized in the related decommissioning liability and carrying amount of the related asset.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 3. Summary of significant accounting policies (continued):

### (k) Provisions (continued):

#### (ii) Disputed claims:

In the normal course of operations, CATSA receives claims requesting monetary compensation from various parties. A provision is accrued to the extent management believes a disputed claim arising from a past event results in a present legal or constructive obligation that can be estimated reliably, and it is probable that the claim will be settled, resulting in an outflow of economic benefits. If the timing of the cash outflows associated with the disputed claim can be reasonably determined to be more than 12 months after the reporting period, the provision is determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

#### (iii) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by CATSA from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, CATSA recognizes any impairment loss on the assets associated with that contract.

### (l) Government funding:

CATSA's funding is represented by parliamentary appropriations received or receivable from the Government of Canada. Parliamentary appropriations used for operating expenditures are recorded in financial performance in the year in which the related expenses are incurred.

Parliamentary appropriations used to acquire inventories, prepaid expenses, property and equipment, and intangible assets are recorded as deferred government funding and amortized in financial performance on the same basis as the related cost for which the appropriations are intended to compensate.

In the event CATSA disposes of funded depreciable assets, the related remaining deferred government funding is recognized in financial performance in the period of disposal.

Unused parliamentary appropriations at year-end are lapsed.

### (m) Finance income:

Finance income is comprised primarily of interest income derived from cash balances and is recognized in financial performance in the year it is earned.

### (n) Finance cost:

Finance cost is comprised primarily of the unwinding of the discount on the provision for decommissioning liabilities and is recognized in financial performance in the year it is incurred.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 3. Summary of significant accounting policies (continued):

### (o) Foreign currency translation:

Foreign currency transactions are translated using exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation, using year-end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognized in financial performance for the year. Non-monetary assets and liabilities are translated using exchange rates prevailing at the dates the assets are acquired or the obligations are incurred.

### (p) Deferred lease incentives:

Lease incentives represent a rent-free period of common area costs as well as a period of significantly reduced rent related to leased premises. The lease incentives are deferred and recognized as part of operating lease expenses in financial performance on a straight-line basis over the term of the lease, which expires on November 30, 2017.

### (q) Future accounting changes:

Certain new accounting standards and amendments have been published which are not required to be adopted for the current reporting period. As at the date of these financial statements, the applicable standards and amendments issued but not yet effective which may have a significant impact on future financial statements are:

- IAS 1, *Presentation of Financial Statements*, was amended to require items in other comprehensive income to be classified by nature, and grouped into those that will not be reclassified subsequently to financial performance, and those that will be reclassified subsequently to financial performance when specific conditions are met. The amendment is effective for annual periods beginning on or after July 1, 2012;
- IAS 19, *Employee Benefits*, was amended to eliminate the option to defer the recognition of actuarial gains and losses, modify the presentation of changes in defined benefit obligations and plan assets in the Statement of Comprehensive Income, require net interest to be calculated by using a high quality corporate bond yield, as well as to improve disclosure about the risks arising from defined benefit plans. The amendment is effective for annual periods beginning on or after January 1, 2013;
- IFRS 9, *Financial Instruments*, was issued to deal with classification and measurement requirements for financial assets and financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2015; and
- IFRS 13, *Fair Value Measurement*, was issued to provide a single source for guidance on measuring and disclosing fair values, clarify the definition of fair value and how it is determined, and mandate disclosures over fair value measurements. The standard is effective for annual periods beginning on or after January 1, 2013.

CATSA is currently assessing the impact of these standards on the financial statements.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 4. Financial instruments:

As part of its operations, CATSA enters into transactions with financial risks exposure such as market and liquidity risks.

### (a) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. CATSA's key market risk relates to currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises from trade and other payables denominated in a currency other than the Canadian dollar, 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.

The following table provides the trade and other payables denominated in the US dollar (USD) and the Canadian dollar (CAD) equivalent:

	USD		CAD	
March 31, 2012	\$	4,217	\$	4,206
March 31, 2011		5,121		5,061
April 1, 2010		18,831		19,124

Assuming all other variables remain constant, a five percent depreciation or appreciation of the USD against the CAD would result in an increase/decrease in financial performance for the year of \$210 (2011 – \$248).

### (b) 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. The liquidity risk is low since CATSA does not have debt instruments to service and receives regular funding from the Government of Canada.

Trade and other payables and the current portion of provisions represent the maximum liquidity risk exposure for CATSA. The following table summarizes the contractual maturities of these financial liabilities:

	Less than			Total	
	3 months	3 to less than 6 months	6 months to 1 year		
March 31, 2012	\$ 80,332	\$ 676	\$ 2,423	\$ 83,431	
March 31, 2011	77,031	–	1,093	78,124	
April 1, 2010	114,299	164	1,637	116,100	

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 5. Trade and other receivables:

Trade and other receivables are comprised of:

	March 31, 2012	March 31, 2011	April 1, 2010
Parliamentary appropriations	\$ 59,569	\$ 52,183	\$ 103,219
GST and HST recoverable	16,648	17,044	7,720
PST recoverable	1,188	1,369	1,578
Other	84	129	71
	<b>\$ 77,489</b>	<b>\$ 70,725</b>	<b>\$ 112,588</b>

## 6. Inventories:

Inventories are comprised of:

	March 31, 2012	March 31, 2011	April 1, 2010
Spare parts	\$ 17,533	\$ 19,688	\$ 17,710
Uniforms	1,062	990	81
RAIC	340	1,107	1,904
	<b>\$ 18,935</b>	<b>\$ 21,785</b>	<b>\$ 19,695</b>

During the year, inventories totalling \$3,958 (2011 – \$1,468) were expensed including \$2,293 (2011 – \$523) related to the write-down of inventories to net realizable value. There were no reversals of previous write-downs recorded in 2012 or 2011.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 7. Property and equipment:

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equipment	Leasehold improve- ments	Work-in- progress	Total
<b>Cost</b>									
Balance, April 1, 2010	\$ 96,412	\$ 624,360	\$ 3,895	\$ 19,020	\$ 18,617	\$ 3,674	\$ 13,597	\$ 77,867	\$ 857,442
Additions	14,173	9,017	2,639	(8)	5,048	–	65	19,261	50,195
Disposals	(4,220)	(3,989)	(75)	(12,993)	(7,813)	(2,945)	(1,516)	(613)	(34,164)
Reclassifications	27,993	17,672	3,177	2,625	10,042	–	125	(61,505)	129
Revisions to decommissioning liabilities estimates	(1,245)	(2,561)	(28)	–	–	–	(25)	–	(3,859)
Balance, March 31, 2011	\$ 133,113	\$ 644,499	\$ 9,608	\$ 8,644	\$ 25,894	\$ 729	\$ 12,246	\$ 35,010	\$ 869,743
Balance, April 1, 2011	<b>\$ 133,113</b>	<b>\$ 644,499</b>	<b>\$ 9,608</b>	<b>\$ 8,644</b>	<b>\$ 25,894</b>	<b>\$ 729</b>	<b>\$ 12,246</b>	<b>\$ 35,010</b>	<b>\$ 869,743</b>
Additions	2,431	10,109	–	60	883	–	99	8,196	21,778
Disposals	(12,466)	(13,492)	(4,305)	(2,333)	(3,367)	(92)	(298)	(891)	(37,244)
Assets held for sale	(7,205)	–	–	–	–	–	–	–	(7,205)
Reclassifications	11,189	17,244	122	140	1,953	–	722	(31,915)	(545)
Revisions to decommissioning liabilities estimates	75	29	4	–	–	–	10	1	119
Balance, March 31, 2012	<b>\$ 127,137</b>	<b>\$ 658,389</b>	<b>\$ 5,429</b>	<b>\$ 6,511</b>	<b>\$ 25,363</b>	<b>\$ 637</b>	<b>\$ 12,779</b>	<b>\$ 10,401</b>	<b>\$ 846,646</b>
<b>Accumulated depreciation</b>									
Balance, April 1, 2010	\$ 51,755	\$ 358,201	\$ 1,397	\$ 16,198	\$ 13,895	\$ 3,289	\$ 7,994	\$ –	\$ 452,729
Depreciation	11,856	57,502	972	1,346	5,593	166	1,692	–	79,127
Disposals	(4,073)	(3,058)	(76)	(12,993)	(7,734)	(2,944)	(1,428)	–	(32,306)
Reclassifications	–	–	–	–	(196)	–	–	–	(196)
Revisions to decommissioning liabilities estimates	284	116	–	–	–	–	–	–	400
Balance, March 31, 2011	\$ 59,822	\$ 412,761	\$ 2,293	\$ 4,551	\$ 11,558	\$ 511	\$ 8,258	\$ –	\$ 499,754
Balance, April 1, 2011	<b>\$ 59,822</b>	<b>\$ 412,761</b>	<b>\$ 2,293</b>	<b>\$ 4,551</b>	<b>\$ 11,558</b>	<b>\$ 511</b>	<b>\$ 8,258</b>	<b>\$ –</b>	<b>\$ 499,754</b>
Depreciation	13,722	56,305	1,143	1,566	7,058	129	1,696	–	81,619
Disposals	(11,693)	(12,513)	(1,129)	(2,232)	(3,366)	(83)	(298)	–	(31,314)
Assets held for sale	(1,573)	–	–	–	–	–	–	–	(1,573)
Revisions to decommissioning liabilities estimates	(2)	–	–	–	–	–	–	–	(2)
Balance, March 31, 2012	<b>\$ 60,276</b>	<b>\$ 456,553</b>	<b>\$ 2,307</b>	<b>\$ 3,885</b>	<b>\$ 15,250</b>	<b>\$ 557</b>	<b>\$ 9,656</b>	<b>\$ –</b>	<b>\$ 548,484</b>
<b>Carrying amounts</b>									
At April 1, 2010	\$ 44,657	\$ 266,159	\$ 2,498	\$ 2,822	\$ 4,722	\$ 385	\$ 5,603	\$ 77,867	\$ 404,713
At March 31, 2011	73,291	231,738	7,315	4,093	14,336	218	3,988	35,010	369,989
At March 31, 2012	<b>66,861</b>	<b>201,836</b>	<b>3,122</b>	<b>2,626</b>	<b>10,113</b>	<b>80</b>	<b>3,123</b>	<b>10,401</b>	<b>298,162</b>



# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 7. Property and equipment (continued):

During the year, CATSA acquired \$21,778 (2011 – \$50,195) of property and equipment which includes an amount of \$35 (2011 – \$216) relating to decommissioning liabilities.

As at March 31, 2012, the estimated useful life of certain screening equipment was revised from seven to ten years in order to better reflect the anticipated lifecycle management of these assets. The change in accounting estimate will be accounted for on a prospective basis starting April 1, 2012, and will decrease the 2012/13 depreciation expense by \$13,388. This decrease will be completely offset by a decrease in the amortization of deferred government funding related to capital. In 2013/14 to 2021/22, the depreciation expense and amortization of deferred government funding related to capital is expected to increase by a total of \$13,388.

During 2010/11, 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 was accounted for on a prospective basis and increased the 2010/11 and 2011/12 depreciation expense by \$1,682 and \$1,260, respectively. The increase in depreciation expense was completely offset by an increase in the amortization of deferred government funding related to capital. In 2012/13 to 2016/17, the depreciation expense and amortization of deferred government funding related to capital is expected to decrease by a total of \$2,942.

As at March 31, 2010, the estimated useful life of integration costs relating to certain screening equipment was revised from seven to ten years in order to better reflect the anticipated lifecycle management of these assets. The change in accounting estimate was accounted for on a prospective basis starting April 1, 2010 and decreased the 2010/11 depreciation expense by \$28,999. This decrease was completely offset by a decrease in the amortization of deferred government funding related to capital. In 2011/12 to 2019/20, the depreciation expense and amortization of deferred funding related to capital is expected to increase by a total of \$28,999.

As at March 31, 2012, CATSA has commitments related to the purchase of screening equipment and other capital projects totalling \$48,497 (March 31, 2011 – \$38,786; April 1, 2010 – \$18,944).

## 8. Equipment held for sale:

	March 31, 2012	March 31, 2011
Balance, beginning of year	\$ –	\$ –
Reclassification from property and equipment	540	–
Disposals	–	–
<b>Balance, end of year</b>	<b>\$ 540</b>	<b>\$ –</b>

During the year, management approved a plan to dispose of nine mobile screening vehicles. As of March 31, 2012, CATSA has no further opportunity to use these assets in the future. Upon initial classification of the asset as held for sale, an impairment loss of \$5,092 (2011 – Nil) was recorded in financial performance for the year. CATSA is currently finalizing the terms and conditions of the sale of the equipment to a third party. The sale is expected to be completed in the year ending March 31, 2013.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 9. Intangible assets:

	Externally acquired software	Internally developed software	Under development	Total
<b>Cost</b>				
Balance, April 1, 2010	\$ 6,405	\$ 7,033	\$ 7,267	\$ 20,705
Additions	440	1,965	3,597	6,002
Disposals	(370)	(945)	(124)	(1,439)
Reclassifications	(1,991)	9,256	(7,394)	(129)
Balance, March 31, 2011	\$ 4,484	\$ 17,309	\$ 3,346	\$ 25,139
Balance, April 1, 2011	\$ 4,484	\$ 17,309	\$ 3,346	\$ 25,139
Additions	418	2,914	718	4,050
Disposals	(340)	(3,184)	(631)	(4,155)
Reclassifications	615	2,641	(2,711)	545
Balance, March 31, 2012	\$ 5,177	\$ 19,680	\$ 722	\$ 25,579
<b>Accumulated amortization</b>				
Balance, April 1, 2010	\$ 4,741	\$ 4,595	\$ –	\$ 9,336
Amortization	1,034	2,688	–	3,722
Disposals	(370)	(594)	–	(964)
Reclassifications	(1,674)	1,870	–	196
Balance, March 31, 2011	\$ 3,731	\$ 8,559	\$ –	\$ 12,290
Balance, April 1, 2011	\$ 3,731	\$ 8,559	\$ –	\$ 12,290
Amortization	722	4,202	–	4,924
Disposals	(340)	(3,184)	–	(3,524)
Balance, March 31, 2012	\$ 4,113	\$ 9,577	\$ –	\$ 13,690
<b>Carrying amounts</b>				
At April 1, 2010	\$ 1,664	\$ 2,438	\$ 7,267	\$ 11,369
At March 31, 2011	753	8,750	3,346	12,849
At March 31, 2012	1,064	10,103	722	11,889

As at March 31, 2012, CATSA has commitments related to the purchase of computer software licenses and other software development projects totalling \$1,413 (March 31, 2011 – \$2,823; April 1, 2010 – \$2,029).

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 \$631 (2011 – \$476) were expensed in the Statement of Comprehensive Income.

During the year, research and development costs of \$578 (2011 – \$27) were expensed.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 10. Provisions:

Provisions are comprised of:

	March 31, 2012	March 31, 2011	April 1, 2010
Decommissioning liabilities	\$ 2,304	\$ 2,174	\$ 6,570
Disputed claims	2,203	18	86
	4,507	2,192	6,656
Less current portion	(2,203)	(18)	(86)
<b>Non-current portion</b>	<b>\$ 2,304</b>	<b>\$ 2,174</b>	<b>\$ 6,570</b>

### (a) Decommissioning liabilities:

CATSA has identified decommissioning liabilities associated with certain PBS, HBS and NPS equipment, as well as a lease agreement. The obligations relating to these decommissioning liabilities are expected to be settled between 2012 and 2022.

The undiscounted amount of the estimated future cash flows required to settle the decommissioning liabilities as at March 31, 2012 is \$2,543 (March 31, 2011 – \$2,377; April 1, 2010 – \$6,871). The liability for the expected cash flows has been discounted using a credit-adjusted risk-free rate of 1.88% (March 31, 2011 – 3.00%; April 1, 2010 – 3.25%).

A reconciliation of the decommissioning liability is as follows:

	March 31, 2012	March 31, 2011
Balance, beginning of year	\$ 2,174	\$ 6,570
Revision in estimated cash flows including change in discount rate	121	(4,232)
Gain on settlement of liabilities	(76)	(449)
Unwinding of discount	50	69
Additional provision due to property and equipment acquired during the year	35	216
<b>Balance, end of year</b>	<b>\$ 2,304</b>	<b>\$ 2,174</b>

In the prior 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 decommissioning liabilities in order to better reflect the costs provided within the contractual arrangement. The change in estimate decreased the decommissioning liabilities and the carrying value of the related assets by \$4,232.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
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## 10. Provisions (continued):

### (b) Disputed claims:

Management has accrued a provision for disputed claims as a result of CATSA receiving claims from various parties requesting monetary compensation. A provision has been recognized on the basis that management believes a present legal or constructive obligation exists and it is probable the claim will be settled. The provision was established by management taking into account legal assessments, information presently available and other recourse. The timing of the cash outflows associated with the disputed claims cannot be reasonably determined. As a result, the total amount of the provision was classified as a current liability and the expected future cash flows have not been discounted.

A reconciliation of the provision for disputed claims is as follows:

	March 31, 2012	March 31, 2011
Balance, beginning of year	\$ 18	\$ 86
Additional provision made in the year	2,203	113
Proceeds paid out in settlement	–	(77)
Provision released in the year	(18)	(104)
<b>Balance, end of year</b>	<b>\$ 2,203</b>	<b>\$ 18</b>

### (c) Onerous contracts:

No onerous contracts have been identified as at March 31, 2012, March 31, 2011, and April 1, 2010.

## 11. Deferred government funding:

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

	March 31, 2012	March 31, 2011
Deferred government funding related to operating		
Balance, beginning of year	\$ 25,140	\$ 23,232
Parliamentary appropriations used to finance operating expenditures	486,431	512,249
Parliamentary appropriations recognized as government funding for operating expenditures during the year	(488,471)	(510,341)
Balance, end of year	23,100	25,140
Deferred government funding related to capital		
Balance, beginning of year	\$ 382,911	\$ 413,900
Parliamentary appropriations used to finance capital expenditures	23,138	54,934
Amortization of deferred government funding related to capital	(95,929)	(85,923)
Balance, end of year	310,120	382,911
<b>Total deferred government funding, end of year</b>	<b>\$ 333,220</b>	<b>\$ 408,051</b>

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 12. Employee benefits:

CATSA has three benefit plans which include the registered pension plan (RPP), the supplementary retirement plan (SRP) and the Other Defined Benefits Plan (ODBP).

The amounts recognized in the Statement of Financial Position are as follows:

### April 1, 2010:

	RPP	SRP	ODBP
Fair value of plan assets	\$ 48,152	\$ 2,098	\$ –
Defined benefit obligation	42,868	2,022	5,188
<b>Funded status – surplus (deficit)</b>	<b>\$ 5,284</b>	<b>\$ 76</b>	<b>\$ (5,188)</b>

### March 31, 2011:

	RPP	SRP	ODBP
Fair value of plan assets	\$ 64,806	\$ 3,304	\$ –
Defined benefit obligation	53,936	2,370	7,483
<b>Funded status – surplus (deficit)</b>	<b>\$ 10,870</b>	<b>\$ 934</b>	<b>\$ (7,483)</b>

### March 31, 2012:

	RPP	SRP	ODBP
Fair value of plan assets	\$ 73,636	\$ 3,815	\$ –
Defined benefit obligation	85,671	3,608	12,272
<b>Funded status – surplus (deficit)</b>	<b>\$ (12,035)</b>	<b>\$ 207</b>	<b>\$ (12,272)</b>

	March 31, 2012	March 31, 2011	April 1, 2010
Employee benefits asset, end of year	\$ 207	\$ 11,804	\$ 5,360
Employee benefits liability, end of year	(24,307)	(7,483)	(5,188)
<b>Employee benefits – net asset (liability), end of year</b>	<b>\$ (24,100)</b>	<b>\$ 4,321</b>	<b>\$ 172</b>

### March 31, 2011:

	RPP	SRP	ODBP
<b>Change in fair value of plan assets:</b>			
Fair value of plan assets, beginning of year	\$ 48,152	\$ 2,098	\$ –
Expected return on plan assets	3,613	76	–
Actuarial gains (losses)	527	(138)	–
CATSA contributions	11,641	1,316	34
Plan participants' contributions	2,453	1	–
Benefit payments and transfers	(1,580)	(49)	(34)
<b>Fair value of plan assets, end of year</b>	<b>\$ 64,806</b>	<b>\$ 3,304</b>	<b>\$ –</b>

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 12. Employee benefits (continued):

### March 31, 2012:

	RPP	SRP	ODBP
<b>Change in fair value of plan assets:</b>			
Fair value of plan assets, beginning of year	\$ 64,806	\$ 3,304	\$ -
Expected return on plan assets	4,476	113	-
Actuarial losses	(4,174)	(167)	-
CATSA contributions	8,264	607	118
Plan participants' contributions	2,445	4	-
Benefit payments and transfers	(2,181)	(46)	(118)
<b>Fair value of plan assets, end of year</b>	<b>\$ 73,636</b>	<b>\$ 3,815</b>	<b>\$ -</b>

For the year ended March 31, 2012, the actual return on plan assets was \$248 (March 31, 2011 – \$4,078).

### March 31, 2011:

	RPP	SRP	ODBP
<b>Change in defined benefit obligation:</b>			
Defined benefit obligation, beginning of year	\$ 42,868	\$ 2,022	\$ 5,188
Plan participants' contributions	2,453	1	-
Current service cost	3,890	125	528
Interest cost	3,051	133	356
Benefit payments and transfers	(1,580)	(49)	(34)
Actuarial losses	3,254	138	1,445
<b>Defined benefit obligation, end of year</b>	<b>\$ 53,936</b>	<b>\$ 2,370</b>	<b>\$ 7,483</b>

### March 31, 2012:

	RPP	SRP	ODBP
<b>Change in defined benefit obligation:</b>			
Defined benefit obligation, beginning of year	\$ 53,936	\$ 2,370	\$ 7,483
Plan participants' contributions	2,445	4	-
Current service cost	4,855	143	1,079
Interest cost	3,605	150	510
Benefit payments and transfers	(2,181)	(46)	(118)
Actuarial losses	23,011	987	3,318
<b>Defined benefit obligation, end of year</b>	<b>\$ 85,671</b>	<b>\$ 3,608</b>	<b>\$ 12,272</b>

CATSA estimates that cash payments to its post-employment benefit plans for the year ending March 31, 2013 will total \$8,357.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 12. Employee benefits (continued):

The elements of employee benefit costs recognized in the Statement of Comprehensive Income for the years ended March 31 are as follows:

### March 31, 2011:

	RPP	SRP	ODBP
<b>Net benefit cost recognized in the year:</b>			
Current service cost	\$ 3,890	\$ 125	\$ 528
Interest cost	3,051	133	356
Expected return on plan assets	(3,613)	(76)	–
<b>Net benefit cost recognized in the year</b>	<b>\$ 3,328</b>	<b>\$ 182</b>	<b>\$ 884</b>
<b>Actuarial gains and losses recognized in other comprehensive income:</b>			
Cumulative amount, beginning of year	\$ –	\$ –	\$ –
Recognized during the year	2,727	276	1,445
<b>Cumulative amount, end of year</b>	<b>\$ 2,727</b>	<b>\$ 276</b>	<b>\$ 1,445</b>

### March 31, 2012:

	RPP	SRP	ODBP
<b>Net benefit cost recognized in the year:</b>			
Current service cost	\$ 4,855	\$ 143	\$ 1,079
Interest cost	3,605	150	510
Expected return on plan assets	(4,476)	(113)	–
<b>Net benefit cost recognized in the year</b>	<b>\$ 3,984</b>	<b>\$ 180</b>	<b>\$ 1,589</b>
<b>Actuarial gains and losses recognized in other comprehensive income:</b>			
Cumulative amount, beginning of year	\$ 2,727	\$ 276	\$ 1,445
Recognized during the year	27,185	1,154	3,318
<b>Cumulative amount, end of year</b>	<b>\$ 29,912</b>	<b>\$ 1,430</b>	<b>\$ 4,763</b>

### Allocation of plan assets

Based on the fair value at March 31, plan assets of funded plans are allocated as follows:

	March 31, 2012	March 31, 2011	April 1, 2010
Equity securities	64%	63%	63%
Debt securities	33%	33%	33%
Canada Revenue Agency refundable tax account	2%	2%	2%
Other	1%	2%	2%

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 12. Employee benefits (continued):

### Actuarial assumptions

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

#### April 1, 2010:

	RPP	SRP	ODBP
Discount rate for accrued benefit obligation	6.25%	6.25%	6.25%
Inflation for accrued benefit obligation	2.25%	2.25%	2.25%
Long-term rate of compensation increase, including inflation and promotion	4.25%	4.25%	4.25%

#### March 31, 2011:

	RPP	SRP	ODBP
Expected rate of return on plan assets	7.00%	3.50%	N/A
Discount rate for benefit cost	6.25%	6.25%	6.25%
Discount rate for accrued benefit obligation	6.00%	6.00%	6.00%
Inflation for benefit cost	2.25%	2.25%	2.25%
Inflation for accrued benefit obligation	2.25%	2.25%	2.25%
Long-term rate of compensation increase, including inflation and promotion	4.25%	4.25%	4.25%

#### March 31, 2012:

	RPP	SRP	ODBP
Expected rate of return on plan assets	6.50%	3.25%	N/A
Discount rate for benefit cost	6.00%	6.00%	6.00%
Discount rate for accrued benefit obligation	4.50%	4.50%	4.50%
Inflation for benefit cost	2.25%	2.25%	2.25%
Inflation for accrued benefit obligation	2.25%	2.25%	2.25%
Long-term rate of compensation increase, including inflation and promotion	4.25%	4.25%	4.25%

As per IAS 19, the discount rate used to determine the defined benefit obligation should be based on market rates for high-quality corporate bonds that match the currency and estimated term of the obligations. Given the long-term nature of pension plan obligations, the yields for bonds with long terms to maturity are most important. In a market such as Canada, high-quality long-term corporate bonds are few in number. Due to this lack of depth in the long-term market, the Canadian Institute of Actuaries released an educational note in September 2011 — *Accounting Discount Rate Assumption for Pension and Post-employment Benefit Plans* — that proposed a preferred methodology for extrapolating the long end of the high-quality corporate bond yield curve. This preferred methodology included supplementing the long end of the yield curve with additional data points by including Canadian provincial bonds rated AA with an adjustment to account for credit risk differentials when compared to corporate bond yields. The discount rate of 4.50% used to determine the defined benefit obligation as at March 31, 2012 was derived in a manner consistent with the preferred methodology included within the Canadian Institute of Actuaries educational note.



# NOTES TO FINANCIAL STATEMENTS

**Years ended March 31, 2012 and 2011**  
*(In thousands of Canadian dollars)*

## 12. Employee benefits (continued):

### *Actuarial assumptions (continued)*

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The assessment of the expected returns is based on historical return trends and analysts' predictions on the market for the asset in the next twelve months.

### *Assumed health care cost trend rates*

	<b>March 31, 2012</b>	March 31, 2011	April 1, 2010
Initial health care cost trend rate	<b>7.60%</b>	7.90%	8.00%
Ultimate health care cost trend rate	<b>4.60%</b>	4.60%	4.90%
Year ultimate rate reached	<b>2021</b>	2021	2018

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:

#### **April 1, 2010:**

	Increase	Decrease
Accrued benefit obligation	\$ 1,004	\$ (761)

#### **March 31, 2011:**

	Increase	Decrease
Total cost of service and interest	\$ 1,120	\$ (712)
Accrued benefit obligation	\$ 1,666	\$ (1,248)

#### **March 31, 2012:**

	Increase	Decrease
Total cost of service and interest	\$ 2,035	\$ (1,267)
Accrued benefit obligation	\$ 3,100	\$ (2,273)

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 12. Employee benefits (continued):

### Historical information

The developments of CATSA's defined benefit plans are summarized as follows:

#### April 1, 2010:

	RPP	SRP	ODBP
Fair value of plan assets	\$ 48,152	\$ 2,098	\$ –
Defined benefit obligation	42,868	2,022	5,188
<b>Funded status – surplus (deficit)</b>	<b>\$ 5,284</b>	<b>\$ 76</b>	<b>\$ (5,188)</b>

#### March 31, 2011:

	RPP	SRP	ODBP
Fair value of plan assets	\$ 64,806	\$ 3,304	\$ –
Defined benefit obligation	53,936	2,370	7,483
<b>Funded status – surplus (deficit)</b>	<b>\$ 10,870</b>	<b>\$ 934</b>	<b>\$ (7,483)</b>
<b>Experience adjustments on plan assets</b>	<b>\$ 527</b>	<b>\$ (138)</b>	<b>\$ N/A</b>
<b>Experience adjustments on plan liabilities</b>	<b>\$ 3,254</b>	<b>\$ 138</b>	<b>\$ 1,445</b>

#### March 31, 2012:

	RPP	SRP	ODBP
Fair value of plan assets	\$ 73,636	\$ 3,815	\$ –
Defined benefit obligation	85,671	3,608	12,272
<b>Funded status – surplus (deficit)</b>	<b>\$ (12,035)</b>	<b>\$ 207</b>	<b>\$ (12,272)</b>
<b>Experience adjustments on plan assets</b>	<b>\$ (4,174)</b>	<b>\$ (167)</b>	<b>\$ N/A</b>
<b>Experience adjustments on plan liabilities</b>	<b>\$ 23,011</b>	<b>\$ 987</b>	<b>\$ 3,318</b>

### Termination benefits

CATSA recorded termination benefits totalling \$4,301 (2011 – Nil) related to the reduction in the organization's FTE headcount. A detailed workforce adjustment plan was finalized and approved prior to March 31, 2012. An accrual for the full amount is included in trade and other payables at March 31, 2012.

# NOTES TO FINANCIAL STATEMENTS

**Years ended March 31, 2012 and 2011**  
(In thousands of Canadian dollars)

## 13. Expenses:

CATSA conducts its operations using a functional organizational structure. The Statement of Comprehensive Income presents operating expenses by mandated activity. The following table presents operating expenses by major expense type for the years ended March 31:

	2012	2011
Payments to screening contractors	\$ 348,884	\$ 365,442
Depreciation of property and equipment	81,619	79,127
Employee costs	59,187	54,260
Equipment maintenance and spare parts	43,249	39,276
Professional services and other business related costs	6,929	10,070
Operating leases	6,721	6,639
Other administrative costs	6,351	7,025
Uniforms and other screening related costs	4,974	6,456
Amortization of intangible assets	4,924	3,722
Office and computer expenses	4,195	6,415
Trace and consumables	1,884	2,405
Communications and public awareness	1,871	1,728
Training and certification	820	2,395
RAIC	773	797
	<b>\$ 572,381</b>	<b>\$ 585,757</b>

Other business related costs include travel expenses, conference fees, membership and association fees, meeting expenses and training material expenses. Other administrative costs include insurance, and network and telephone expenses.

## 14. Government funding

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

	March 31, 2012	March 31, 2011
Parliamentary appropriations approved	\$ 519,224	\$ 577,646
Overspent (unused) portion of parliamentary appropriations (operating)	174	(6,504)
Unused portion of parliamentary appropriations (capital)	(9,829)	(3,959)
<b>Total parliamentary appropriations used</b>	<b>\$ 509,569</b>	<b>\$ 567,183</b>

Parliamentary appropriations were used as follows:

	March 31, 2012	March 31, 2011
Operating funding (note 11)	\$ 486,431	\$ 512,249
Capital funding (note 11)	23,138	54,934
<b>Total parliamentary appropriations used</b>	<b>\$ 509,569</b>	<b>\$ 567,183</b>

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 15. Commitments:

### (a) Operating leases:

CATSA is committed under operating leases for the rental of equipment and office space. The following table provides the minimum lease payments under the terms of these leases:

	March 31, 2012	March 31, 2011	April 1, 2010
No later than 1 year	\$ 10,634	\$ 10,693	\$ 10,114
Later than 1 year and no later than 5 years	20,739	21,871	25,724
Later than 5 years	3,923	6,609	9,729

The operating lease for the office space at headquarters contains an option to renew for five additional years, subject to the same terms and conditions as the original lease. There is no further right to extend after the expiry of the extension term and the future rent will be based on the prevailing market rate at that time.

There are decommissioning liabilities associated with the operating lease for the office space at headquarters that represent the cost required to restore the premises to an agreed upon standard.

### (b) Contractual obligations:

Contractual obligations include various contracts for equipment purchases, screening services and equipment maintenance. These contractual obligations are subject to authorized appropriations and termination rights which allow CATSA to terminate the contracts without penalty at its discretion.

The following table provides the minimum commitments under these contractual obligations:

	March 31, 2012	March 31, 2011	April 1, 2010
No later than 1 year	\$ 500,055	\$ 342,809	\$ 462,321
Later than 1 year and no later than 5 years	1,654,648	139,514	24,084
Later than 5 years	26,235	31	–

## 16. Related party transactions:

CATSA had the following transactions with related parties during the year:

### (a) Government of Canada, its agencies and other Crown corporations:

CATSA is wholly owned by the Government of Canada, and is under common control with 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 based on normal trade terms applicable to all individuals and corporations.

# NOTES TO FINANCIAL STATEMENTS

**Years ended March 31, 2012 and 2011**  
*(In thousands of Canadian dollars)*

## 16. Related party transactions (continued):

### *(a) Government of Canada, its agencies and other Crown corporations (continued):*

Income from these related parties amounted to \$584,400 (2011 – \$596,264), which represent parliamentary appropriations for operating expenses used and parliamentary appropriations for capital expenditures amortized. Expenses for these related parties amounted to \$11,919 (2011 – \$15,668), which include \$10,165 (2011 – \$11,610) in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

Amounts receivable from related parties were \$76,301 (March 31, 2011 – \$69,320; April 1, 2010 – \$111,026). These include \$16,648 (March 31, 2011 – \$17,044; April 1, 2010 – \$7,720) due from the Canada Revenue Agency for taxes paid on expenses and \$59,569 (March 31, 2011 – \$52,183; April 1, 2010 – \$103,219) due from the Government of Canada for parliamentary appropriations used during the year and not received at year-end. Amounts payable to related parties were \$441 (March 31, 2011 – \$1,601; April 1, 2010 – \$1,921). Outstanding commitments with related parties were \$1,944 (March 31, 2011 – \$3,382; April 1, 2010 – \$4,122).

### *(b) Key management personnel:*

As at March 31, 2012, key management personnel of CATSA are composed of eleven board members and the seven members of the senior management team. Subsequent to year-end, CATSA restructured its senior management team, which resulted in a reduction in members of the senior management team from seven to six.

The compensation of board members and other members of key management is as follows for the years ended March 31:

	2012	2011
Salaries, other short-term employee benefits and termination benefits	\$ 2,487	\$ 1,978
Post-employment benefits	264	247
	<b>\$ 2,751</b>	<b>\$ 2,225</b>

Other than the above compensation, there were no other significant related party transactions involving key management personnel and their close family members in 2012 or 2011.

### *(c) Transactions with CATSA's post-employment benefit plans*

Transactions with the RPP, SRP and ODBP are conducted in the normal course of business. The transactions with CATSA's three benefit plans consist of contributions as determined by actuarial valuations, as disclosed in note 12. There were no other transactions during the year.

# NOTES TO FINANCIAL STATEMENTS

**Years ended March 31, 2012 and 2011**  
(In thousands of Canadian dollars)

## 17. Capital management:

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

The primary objective in managing capital is to provide sufficient liquidity to support CATSA's financial obligations and its operating and strategic plans. CATSA manages its capital in accordance with the Treasury Board of Canada 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 for the purpose of meeting short-term funding requirements.

Capital is comprised of the following:

	March 31, 2012	March 31, 2011	April 1, 2010
Cash	\$ 5,907	\$ 7,335	\$ 3,512
Trade and other receivables	77,489	70,725	112,588
Trade and other payables	(81,228)	(78,106)	(116,014)
Current portion of provisions	(2,203)	(18)	(86)
	<b>\$ (35)</b>	<b>\$ (64)</b>	<b>\$ -</b>

CATSA's objectives, policies, and processes for managing capital have not changed since March 31, 2011. CATSA is not subject to externally imposed capital requirements.

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

The following table presents the net change in non-cash working capital balances for the years ended March 31:

	2012	2011
Decrease (increase) in trade and other receivables	\$ (14,953)	\$ 20,652
Decrease (increase) in inventories	3,055	(2,090)
Decrease (increase) in prepaid expenses	(810)	182
Increase (decrease) in trade and other payables	6,916	(5,468)
Increase (decrease) in current portion of provisions	2,185	(68)
Increase (decrease) in current portion of deferred government contributions related to operating	(2,040)	1,908
	<b>\$ (5,647)</b>	<b>\$ 15,116</b>

Interest income received and recognized during the year totalled \$559 (2011 – \$445).

Interest expense paid and expensed during the year totalled \$12 (2011 – \$8).

The change in trade and other receivables excludes an amount of \$8,189 (2011 – \$21,211) in relation to government funding related to capital.

# NOTES TO FINANCIAL STATEMENTS

**Years ended March 31, 2012 and 2011**  
*(In thousands of Canadian dollars)*

## 18. Net change in non-cash working capital balances and supplementary cash flow information (continued):

The change in inventories excludes an amount of \$205 (2011 – Nil) in relation to a transfer of spare parts from capital assets to inventory, as the amount relates to a non-cash transaction.

The change in trade and other payables excludes an amount of \$3,794 (2011 – \$32,440) in relation to the acquisition of property and equipment and intangible assets.

The net increase in employee benefits excludes an amount of \$31,657 (2011 – \$4,448) in relation to net actuarial losses for the year recorded in other comprehensive income.

During the year, CATSA received non-cash proceeds of \$2,636 (2011 – \$1,045) relating to the disposal of property and equipment, in the form of credit notes from a supplier.

## 19. Contingent liabilities:

In the current year, CATSA was named as a defendant in a legal action claiming damages against multiple defendants. Management is of the opinion that there is a defence to the claim. CATSA is unable to provide an estimate of liability or damages as it is at the early stages of the process. Accordingly, no provision for losses has been recognized in the current year in relation to this matter. CATSA is unable to estimate when this claim will be resolved. CATSA has insurance which would reimburse a portion of the total amount claimed.

In the prior year, CATSA was named as a defendant with the Attorney General of Canada in a legal action claiming damages. Although no amount has been included within the statement of claim, it is estimated the claim may be for several million dollars. Management is of the opinion that there is a strong defence against the claim. The likelihood of an outflow of economic benefits cannot be determined at this time. Accordingly, no provision for losses has been recognized in the current or prior year in relation to this matter. CATSA is unable to estimate when this claim will be resolved. CATSA has notified its insurers and the possibility of reimbursement cannot be determined at this time.

## 20. Explanation of transition to IFRS:

CATSA's transition date to IFRS was April 1, 2010 (Transition Date). CATSA has prepared an opening IFRS Statement of Financial Position as at the Transition Date. In preparing its opening IFRS Statement of Financial Position, CATSA has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

### *Application of IFRS 1*

IFRS 1 provides the basis for preparing financial statements when adopting IFRS for the first time. CATSA is required to establish its IFRS accounting policies and apply these retrospectively to determine the IFRS opening Statement of Financial Position as at the Transition Date. The accounting standard provides a number of mandatory exceptions and permits specified exemptions from the general principle of retrospective restatement. In preparing the financial statements, CATSA has applied the applicable mandatory exception and certain of the optional exemptions available under IFRS 1:

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 20. Explanation of transition to IFRS (continued):

### *Application of IFRS 1 (continued):*

- (i) Mandatory exception from full retrospective application:

**Estimates:**

CATSA has applied the mandatory exception in relation to the use of estimates at the Transition Date. Accordingly, the estimates applied at the Transition Date are consistent with the estimates made for the same date under Canadian GAAP, unless there is evidence that those estimates were in error.

- (ii) Optional exemptions from full retrospective application:

**Decommissioning liabilities:**

CATSA has elected to apply the optional exemption available for the measurement of decommissioning liabilities. Accordingly, CATSA has re-measured the provision for decommissioning liabilities and the cost of the related assets, as at the Transition Date, based on the methodology prescribed within IFRS 1.

Refer to point (ii) in the index to the notes to the reconciliations for further discussion regarding the adjustment made to the decommissioning liabilities on transition to IFRS.

**Employee benefits:**

CATSA has elected to apply the optional exemption relating to the recognition of actuarial gains and losses on employee benefits at the Transition Date. An actuarial valuation was obtained at the Transition Date and all cumulative actuarial gains and losses have been recognized in the opening retained earnings balance as at the Transition Date.

Refer to point (iii) in the index to the notes to the reconciliations for further discussion regarding the adjustments made to employee benefits on transition to IFRS.

CATSA has also elected to apply the optional exemption relating to employee benefits disclosures. Accordingly, the required disclosures under IAS 19 are presented prospectively from the Transition Date.

**Leases:**

CATSA has elected to apply the optional exemption in relation to assessing whether arrangements contain a lease under IFRIC 4, *Determining whether an Arrangement Contains a Lease*. Accordingly, management has not re-assessed whether existing arrangements entered into subsequent to the effective date of EIC 150, *Determining whether an Arrangement Contains a Lease* (the Canadian GAAP equivalent) contained a lease. For those arrangements entered into prior to the effective date of EIC 150, management has re-assessed whether those arrangements contain a lease in accordance with the guidance prescribed within IFRIC 4.

No additional lease arrangements were identified based on the re-assessment performed.

An explanation of how the transition from Canadian GAAP to IFRS has affected CATSA's financial position, comprehensive income and cash flows, is set out in the following tables and the notes that accompany the tables.



# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 20. Explanation of transition to IFRS (continued):

### Reconciliation of Equity

	Note	March 31, 2011			April 1, 2010		
		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
<b>Assets:</b>							
Cash		\$ 7,335	\$ –	\$ 7,335	\$ 3,512	\$ –	\$ 3,512
Trade and other receivables		70,725	–	70,725	112,588	–	112,588
Inventories		21,785	–	21,785	19,695	–	19,695
Prepaid expenses		3,355	–	3,355	3,537	–	3,537
Current assets		103,200	–	103,200	139,332	–	139,332
Employee benefits	iii	21,694	(9,890)	11,804	11,468	(6,108)	5,360
Property and equipment	i,ii	369,945	44	369,989	405,921	(1,208)	404,713
Intangible assets		12,849	–	12,849	11,369	–	11,369
Non-current assets		404,488	(9,846)	394,642	428,758	(7,316)	421,442
<b>Total assets</b>		<b>\$ 507,688</b>	<b>\$ (9,846)</b>	<b>\$ 497,842</b>	<b>\$ 568,090</b>	<b>\$ (7,316)</b>	<b>\$ 560,774</b>
<b>Liabilities and equity:</b>							
Trade and other payables	v	\$ 78,124	\$ (18)	\$ 78,106	\$ 116,100	\$ (86)	\$ 116,014
Provisions	v	–	18	18	–	86	86
Deferred government funding related to operating	iv	–	25,140	25,140	–	23,232	23,232
Current liabilities		78,124	25,140	103,264	116,100	23,232	139,332
Provisions	ii	2,378	(204)	2,174	7,112	(542)	6,570
Deferred lease incentives		1,497	–	1,497	730	–	730
Deferred government funding related to capital	i	383,726	(815)	382,911	414,983	(1,083)	413,900
Employee benefits	iii	5,521	1,962	7,483	4,759	429	5,188
Non-current liabilities		393,122	943	394,065	427,584	(1,196)	426,388
Retained earnings (loss)	vi	36,442	(35,929)	513	24,406	(29,352)	(4,946)
Total equity		36,442	(35,929)	513	24,406	(29,352)	(4,946)
<b>Total liabilities and equity</b>		<b>\$ 507,688</b>	<b>\$ (9,846)</b>	<b>\$ 497,842</b>	<b>\$ 568,090</b>	<b>\$ (7,316)</b>	<b>\$ 560,774</b>

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 20. Explanation of transition to IFRS (continued):

*Reconciliation of comprehensive income for the year ended March 31, 2011*

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
<b>Expenses:</b>				
Pre-Board Screening	i,ii,iii,v	\$ 355,261	\$ (209)	\$ 355,052
Hold Baggage Screening	ii,iii,v	154,909	(687)	154,222
Corporate services	ii,iii,v	54,515	329	54,844
Non-Passenger Screening	ii,iii	17,151	8	17,159
Restricted Area Identity Card Program	iii	4,464	16	4,480
Total expenses		586,300	(543)	585,757
<b>Other (income) expenses:</b>				
Gain on settlement of decommissioning liabilities	ii	(919)	470	(449)
Finance income		(470)	–	(470)
Loss on disposal of property and equipment	i	881	(43)	838
Write-down of intangible assets		476	–	476
Foreign exchange loss		136	–	136
Finance cost	ii,v	–	69	69
Total other expenses		104	496	600
<b>Financial performance before government funding</b>		586,404	(47)	586,357
<b>Government funding:</b>				
Parliamentary appropriations for operating expenses	iv	512,249	(1,908)	510,341
Amortization of deferred government funding related to capital	i	86,191	(268)	85,923
		598,440	(2,176)	596,264
<b>Financial performance</b>		12,036	(2,129)	9,907
<b>Other comprehensive loss:</b>				
Net actuarial loss on defined benefits plans	iii	–	(4,448)	(4,448)
<b>Total comprehensive income</b>		<b>\$ 12,036</b>	<b>\$ (6,577)</b>	<b>\$ 5,459</b>

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 20. Explanation of transition to IFRS (continued):

### *Material adjustments to the Statement of Cash Flows for the year ended March 31, 2011*

The adjustments recorded on transition to IFRS were all non-cash adjustments and did not impact the Statement of Cash Flows. There are no other material differences between the Statement of Cash Flows under IFRS and the Statement of Cash Flows under Canadian GAAP.

### *Index to the notes to the reconciliations*

(i) Depreciation start-dates:

#### **Canadian GAAP**

Property and equipment is depreciated when assets are placed in service.

#### **IFRS**

Assets are depreciated as they become available for use. Consequently, management adjusted the depreciation start dates on certain assets where management deemed the assets were available for use before the depreciation start date used under Canadian GAAP. The resulting adjustment to the property and equipment also resulted in an adjustment to deferred government funding.

The impact arising from the change is summarized below:

	March 31, 2011	April 1, 2010
<b>Statement of Comprehensive Income:</b>		
Hold Baggage Screening	\$ 225	\$ –
Loss on disposal of property and equipment	43	–
Amortization of deferred government funding related to capital	(268)	–
<b>Adjustment to total comprehensive income</b>	<b>\$ –</b>	<b>\$ –</b>
<b>Statement of Financial Position:</b>		
Property and equipment	\$ (815)	\$ (1,083)
Deferred government funding related to capital	815	1,083
<b>Adjustment to retained earnings (loss)</b>	<b>\$ –</b>	<b>\$ –</b>

(ii) Decommissioning liabilities:

#### **Canadian GAAP**

Decommissioning liabilities are initially measured based on the present value of the estimated future costs of decommissioning the assets. In periods subsequent to initial measurement, the liabilities are re-measured to recognize period-to-period changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 20. Explanation of transition to IFRS (continued):

### *Index to the notes to the reconciliations (continued)*

(ii) Decommissioning liabilities (continued):

#### **IFRS**

The IFRS 1 election to apply the exemption from full retrospective application resulted in the re-measurement of the decommissioning liabilities as at the Transition Date. Accordingly, the decommissioning liabilities were re-measured using the measurement criteria under IFRS 1 which requires:

- calculating the provision at the date of transition as if the obligation arose at that date, discounting the provision using a current market-based discount rate;
- determining the present value of the provision by discounting the provision back to the date that the obligation first arose, using management's best estimate of the historical risk-adjusted discount rate that would have applied between that date and the date of transition; and
- depreciating the resulting present value from the date the obligation first arose to the date of transition.

Subsequent to the Transition Date, IFRS requires the re-measurement of decommissioning liabilities to reflect changes in discount rates.

The impact arising from the change is summarized below:

	March 31, 2011	April 1, 2010
<b>Statement of Comprehensive Income:</b>		
Pre-Board Screening	\$ 242	\$ –
Hold Baggage Screening	707	–
Corporate services	31	–
Non-Passenger Screening	11	–
Gain on settlement of decommissioning liabilities	(470)	–
Finance cost	125	–
<b>Adjustment to total comprehensive income</b>	<b>\$ 646</b>	<b>\$ –</b>
<b>Statement of Financial Position:</b>		
Property and equipment	\$ 859	\$ (125)
Long-term portion of provisions	204	542
<b>Adjustment to retained earnings (loss)</b>	<b>\$ 1,063</b>	<b>\$ 417</b>

(iii) Defined benefit obligations:

#### **Canadian GAAP**

An entity could elect to measure defined benefit obligations using a measurement date as of a date no earlier than three months prior to the entity's reporting date. CATSA elected to measure its defined benefit obligations using a measurement date of December 31, three months prior to its reporting date.

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 20. Explanation of transition to IFRS (continued):

### Index to the notes to the reconciliations (continued)

#### (iii) Defined benefit obligations (continued):

In addition, actuarial gains and losses are recognized based on the corridor method. Under the corridor method, actuarial gains and losses exceeding 10% of the greater of the accrued benefit obligation and fair value of the plan assets at the beginning of the year, are amortized on a straight-line basis over the expected average service period of active participants and recognized as a component of employee costs. Actuarial gains and losses below the 10% corridor threshold are deferred.

Finally, liabilities and expenses for vested past service costs under a defined benefit plan are recognized on a straight-line basis over the expected average remaining service period of the plan participants.

#### IFRS

Defined benefit obligations should 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. Accordingly, CATSA has elected to measure its defined benefit obligation under IFRS using a measurement date of March 31.

The IFRS 1 election to apply the exemption from full retrospective application resulted in the recognition of all cumulative actuarial gains and losses relating to employee benefit plans, as at the Transition Date, in opening retained earnings. In addition, CATSA will recognize all subsequent actuarial gains and losses relating to the employee benefit plans directly in other comprehensive income at the end of each fiscal year.

Finally, liabilities and expenses for vested past service costs under defined benefit plans are recognized immediately. Accordingly, all remaining vested past service costs as at the Transition Date, have been recognized directly in opening retained earnings.

The impact arising from the change is summarized below:

	March 31, 2011	April 1, 2010
<b>Statement of Comprehensive Income:</b>		
Pre-Board Screening	\$ (384)	\$ –
Hold Baggage Screening	(96)	–
Corporate services	(352)	–
Non-Passenger Screening	(19)	–
Restricted Area Identity Card Program	(16)	–
Actuarial loss on defined benefit plans	(4,448)	–
<b>Adjustment to total comprehensive income</b>	<b>\$ (5,315)</b>	<b>\$ –</b>
<b>Statement of Financial Position:</b>		
Employee benefits asset	\$ (9,890)	\$ (6,108)
Employee benefits liability	(1,962)	(429)
<b>Adjustment to retained earnings (loss)</b>	<b>\$ (11,852)</b>	<b>\$ (6,537)</b>

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 20. Explanation of transition to IFRS (continued):

*Index to the notes to the reconciliations (continued)*

(iv) Government funding:

### Canadian GAAP

CATSA recognized parliamentary appropriations received for the purchase of inventory and prepaids in financial performance in the year the funds are used.

### IFRS

Parliamentary appropriations received for the purchase of inventory and prepaids are recognized in financial performance in the year in which the related expenses are incurred. Accordingly, management adjusted parliamentary appropriations for operating expenses to equal operating expenses incurred on an accrual basis. The resulting adjustment to parliamentary appropriations for operating expenses also resulted in an adjustment to deferred government funding for operating expenses.

The impact arising from this change is summarized below:

	March 31, 2011	April 1, 2010
<b>Statement of Comprehensive Income:</b>		
Parliamentary appropriations for operating expenses	\$ (1,908)	\$ –
<b>Adjustment to total comprehensive income</b>	<b>\$ (1,908)</b>	<b>\$ –</b>
<b>Statement of Financial Position:</b>		
Deferred government funding related to operating	\$ (25,140)	\$ (23,232)
<b>Adjustment to retained earnings (loss)</b>	<b>\$ (25,140)</b>	<b>\$ (23,232)</b>

(v) Reclassifications:

Certain balances under Canadian GAAP have been reclassified to conform to the presentation adopted under IFRS. These reclassifications are summarized below:

	March 31, 2011	April 1, 2010
<b>Statement of Comprehensive Income:</b>		
Pre-Board Screening	\$ 126	\$ –
Hold Baggage Screening	76	–
Corporate services	(8)	–
Finance cost	(194)	–
<b>Adjustment to total comprehensive income</b>	<b>\$ –</b>	<b>\$ –</b>
<b>Statement of Financial Position:</b>		
Trade and other payables	\$ 18	\$ 86
Current portion of provisions	(18)	(86)
<b>Adjustment to retained earnings (loss)</b>	<b>\$ –</b>	<b>\$ –</b>

# NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011  
(In thousands of Canadian dollars)

## 20. Explanation of transition to IFRS (continued):

*Index to the notes to the reconciliations (continued)*

(vi) Retained earnings:

The above changes increased (decreased) retained earnings as follows:

	Note	March 31, 2011	April 1, 2010
Decommissioning liabilities	ii	\$ 1,063	\$ 417
Employee benefits	iii	(11,852)	(6,537)
Government funding	iv	(25,140)	(23,232)
<b>Adjustment to retained earnings (loss)</b>		<b>\$ (35,929)</b>	<b>\$ (29,352)</b>



**Contact us:**

Canadian Air Transport Security Authority (CATSA)  
99 Bank Street, 13th Floor  
Ottawa, ON K1P 6B9

Phone: 1-888-294-2202

Fax: 613-990-1295

Email: [correspondence@catsa-acsta.gc.ca](mailto:correspondence@catsa-acsta.gc.ca)

**For more information, visit our website:**

[catsa-acsta.gc.ca](http://catsa-acsta.gc.ca)

This publication is printed and bound in Canada  
Catalogue No. CC401-2012E-PDF

