CATSA ANNUAL REPORT 2014

Canada

CATSA ACSTA

For more information, visit our website:
www.catsa.gc.ca

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

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CATSA by the Numbers

53.9 million passengers screened in 2013/14

More than **5,570** screening officers across Canada

105 checkpoints

313 screening lanes

89 airports across Canada

Corporate Profile

Established on April 1, 2002, the Canadian Air Transport Security Authority (CATSA) is an agent Crown corporation fully funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. Supported by its screening contractors and their screening officer workforce, CATSA screened over 53.9 million passengers and their belongings in 2013/14.

Mission

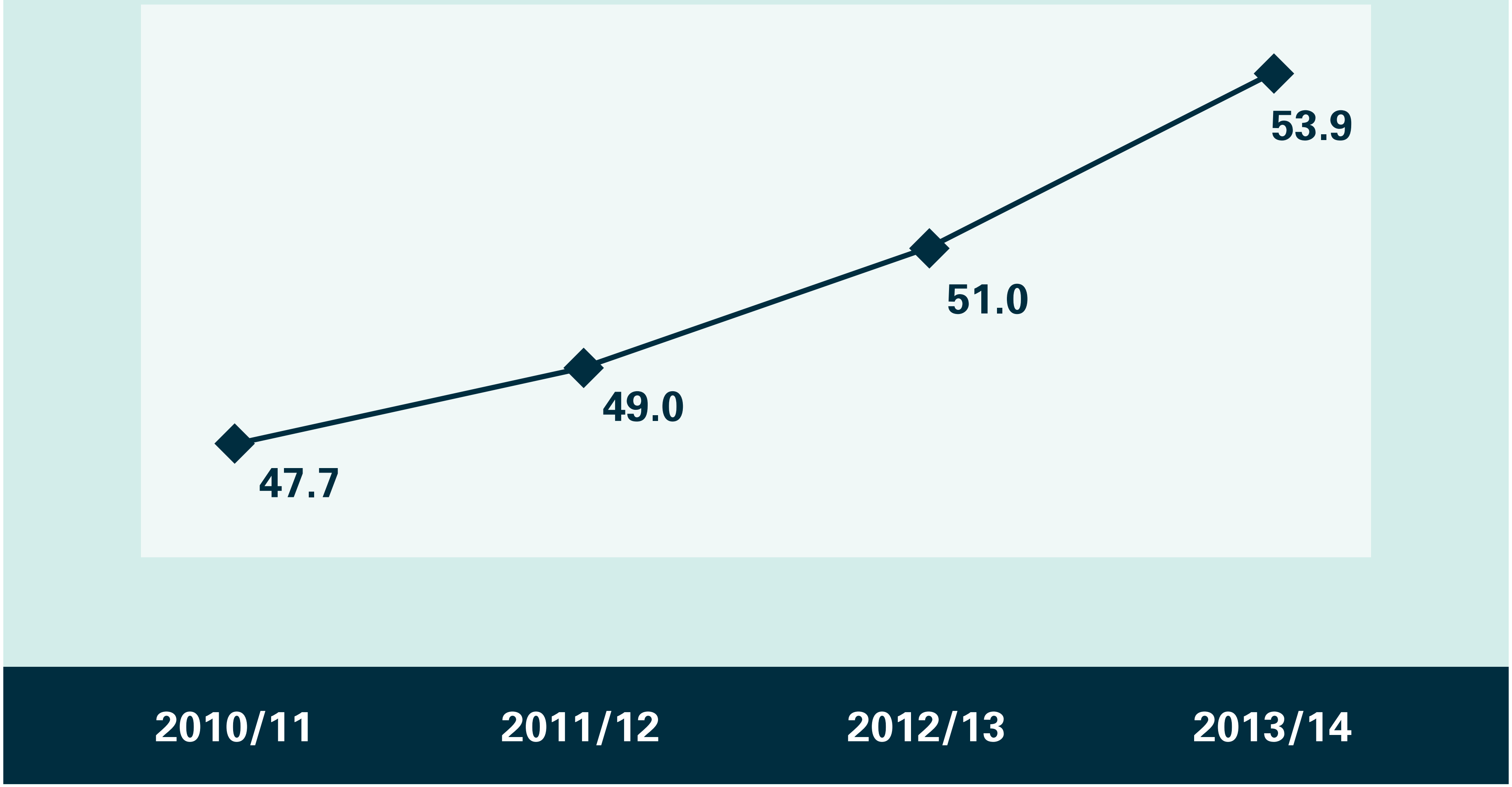
CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada.

Vision

CATSA's vision is to excel in air transport security; which is achieved through our service, our people, and our partnerships:

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

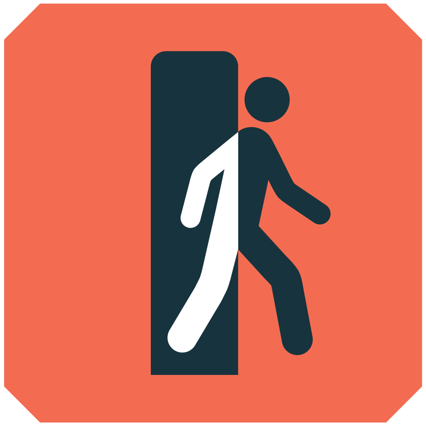
Passengers Screened (in millions)



Annual Highlights

Pre-Board Screening (PBS)

- In support of the *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness Action Plan*, CATSA continued to collaborate with federal organizations in enhancing the benefits of NEXUS through the Trusted Traveller CATSA Security Line (TTCSL) trial.
- New technologies were deployed across Canada's 28 major airports in 2013/14, as part of a 2012 international agreement modifying the current screening method for passengers carrying permitted liquids, aerosols and gels (LAGs).
- This year also marked a change in the official security bags screening procedure. Previously, these bags were only accepted from flights arriving from Europe. Today, CATSA accepts them from all countries without a re-screening requirement as long as the original seal is intact.
- As part of the Strategy for Screening Effectiveness (SSE), a complete re-design of the Threat Image Protection System (TIPS) Library for screening officer training was completed in the 2013/14 fiscal year. The library was designed to be risk-based and include threats at varying levels of difficulty, thereby improving screening officer threat detection skills and keeping them up-to-date on the current environment.



CATSA demonstrated its commitment to improving the customer experience through the campaign.

- Passenger volumes and screening contractor billing rates have increased over the years, while CATSA's funding levels have remained stable, thereby triggering discussions on wait time service levels. To evaluate the impact of various funding options on PBS wait time service levels, CATSA, Transport Canada, and Carleton University collaborated on the creation of a new Wait Time Impact Model in 2013.
- CATSA's *Breeze Through Security Campaign*, focuses on connecting with passengers through increased engagement using social media. The year also marked the launch of a redesigned website and new mobile application. CATSA demonstrated its commitment to improving the customer experience through the campaign.
- In 2013, CATSA launched a public outreach program called *CATSA in the Community* to inform passengers about what to expect at PBS and how they can better prepare for screening. In addition to providing information to the general public, it addresses the unique concerns and requirements of those from different cultural backgrounds as well as travellers with special needs, seniors, and those with medical devices.

Non-Passenger Screening (NPS)

- In support of the International Civil Aviation Organization's (ICAO) enhanced standard for NPS and security controls, Transport Canada and CATSA developed a risk-based strategy to enhance the NPS program and increase coverage at designated restricted area access points, which was achieved ahead of schedule.

Hold Baggage Screening (HBS)

- CATSA continued its 10-year HBS Recapitalization Program, with deployment focusing on Canadian airports with U.S. pre-clearance facilities. It will enable CATSA to upgrade its HBS technologies to maintain international equivalency. The project remains on time and on budget.

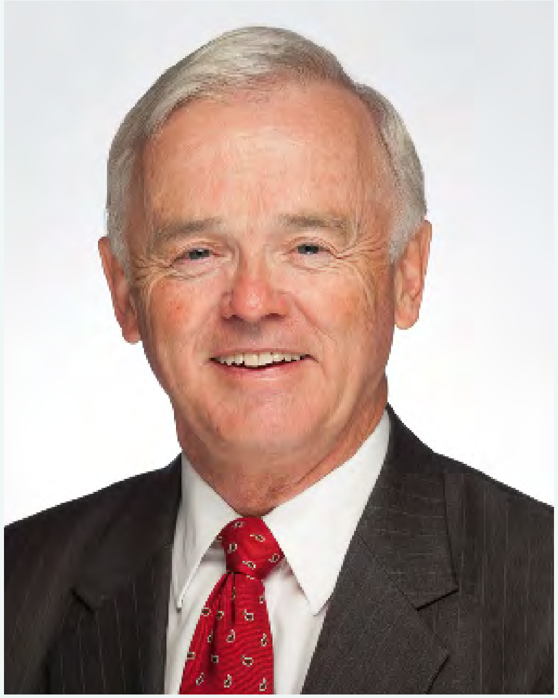
Restricted Area Identity Card (RAIC)

- CATSA and airport authorities cooperated to maintain the effective, efficient and consistent operation of this mature program.

Internal Services

- CATSA collaborated with key responders as part of the Business Continuity and Emergency Management Program. Through two national exercises, CATSA and its screening contractors were able to practice and solidify emergency response capability for threats identified in CATSA's Corporate Risk Profile. Links were established with the Public Health Agency of Canada (PHAC) in the review of CATSA's Pandemic Plan.

Message from our Chair



This year marks the 100th anniversary of the first commercial flight. Around the world, commercial aviation is continuing to grow to unprecedented levels. In Canada this growth has resulted in the industry now playing a vital role in our economy and culture.

This means the need to safeguard the security of millions of passengers each year is more important than ever as we move into the next century.

Innovation will be key to our success. Fortunately, CATSA is already well on its way to ensuring it can meet the coming challenges that inevitably lie ahead in security and global travel.

Providing an efficient and effective security screening process is fundamental to the smooth flow of passengers within Canada and around the globe. Changing technology and consumer behaviour are rapidly dictating the need for even more careful planning and strategic thinking in our industry.

Strong partnerships lie at the foundation of these efforts and the past year has been one of building and reinforcing our collaboration with industry stakeholders. We are fortunate to have strong alliances that will continue to allow us to enhance the delivery of our services to passengers.

I joined the Board 18 months ago and very quickly the dedication and quality of CATSA's team became evident to me. To everyone at CATSA, I offer my appreciation and congratulations on a job well done in 2013/14.

I also commend the members of the Board for their dedicated work to ensure CATSA's mandate is carried out efficiently and cost effectively. On a personal note, I offer my sincere thanks to the Board for their unwavering support during my first full year as Chair.

Lloyd A. McCoomb, PhD., P.Eng., ICD.D

Message from our President & CEO

CATSA screened almost 54 million passengers at security checkpoints across Canada last year – effectively, efficiently and in the public interest, which is exactly what our core mandate calls on us to do.

But while this sounds simple enough, meeting our mandate requires a strong spirit of innovation, drive, focus and commitment. CATSA employees are remarkably resourceful in leveraging technology, optimizing resources, and finding creative ways to meet our business objectives during times of challenge.

New strategies and processes are critical. We look for them in every aspect of our operations, from fresh thinking about our checkpoint configuration to ways of better informing passengers as they prepare for air travel.

Recent technological innovations have allowed us to thoroughly analyze data to create cost-savings, enhance the passenger experience and ensure an unwavering security standard.

Our collaboration with industry stakeholders has been invaluable through the years and we continue to deepen these relationships for mutual benefit. These strategic alliances allow us to improve and better manage air security and the passenger experience.

Our relationships with the screening contractors who deliver our services continue to strengthen and thrive. Together, we remain committed to achieving the right balance between security and service.

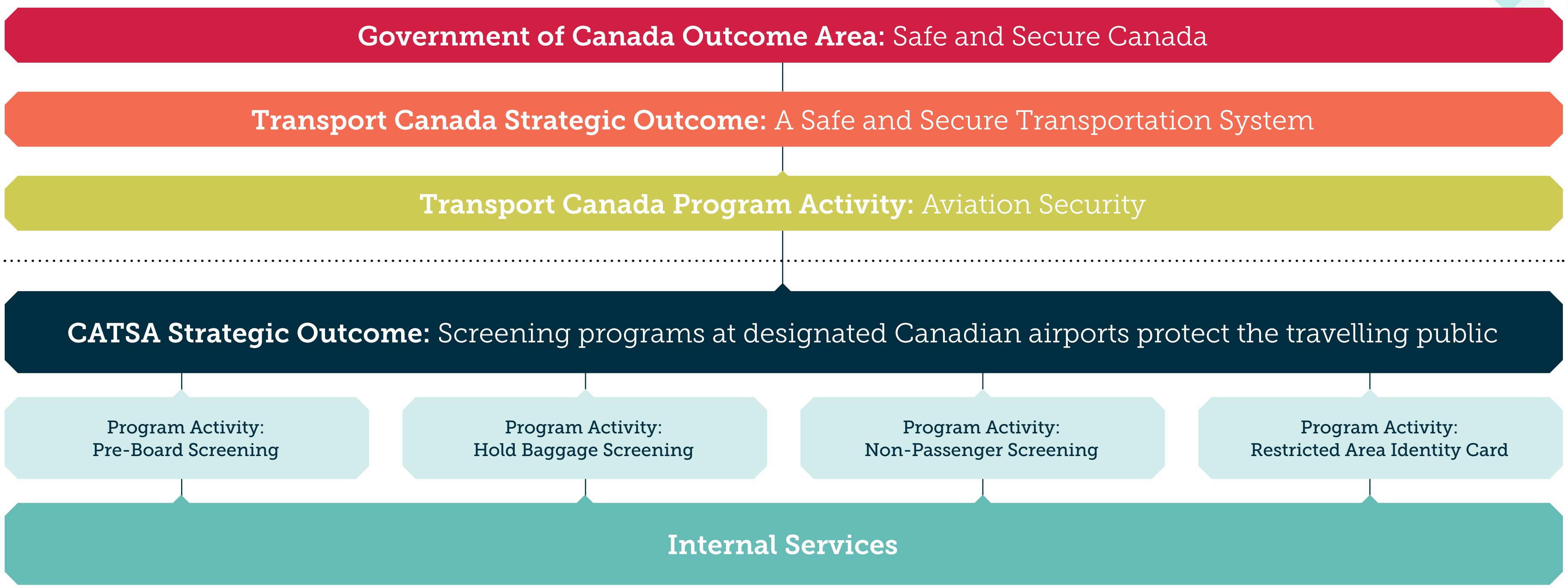
At the heart of our business are the screening officers. They are the face of CATSA and a pillar of our operations. I would like to thank them for their dedication and hard work throughout 2013/14. Their efforts are important to the security of the travelling public.

As we move into a new year, I am confident that CATSA's team is well prepared to meet the challenges that lie ahead and I feel privileged to lead them on this important mission.

Angus Watt, President and CEO

Program Alignment Architecture

CATSA's Program Alignment Architecture (PAA) reflects the organization's mandated activities. The PAA, which adheres to the Treasury Board of Canada Secretariat's (TBS) *Policy of Management, Resources and Results Structures*, ensures the continued alignment of mandated activities with the priorities of the Government of Canada. It is aligned with the Government of Canada's Strategic Outcome of a "Safe and Secure Canada," and Transport Canada's Strategic Outcome of a "Safe and Secure Transportation System." CATSA's PAA is presented in the illustration below.



Mandated Activities

CATSA is responsible for security screening at 89 designated airports across the country through a third-party screening contractor model. Playing a key role in Canada's air transportation system, CATSA delivers the following four mandated activities:

Pre-Board Screening (PBS)	At airport checkpoints across the country, security screening of passengers and their belongings is conducted by CATSA's screening officers prior to their entry into the secure area of an air terminal building. Screening officers use a variety of screening technologies and procedures to examine passengers and their belongings to prevent them from carrying prohibited items beyond the screening point.
Hold Baggage Screening (HBS)	Screening officers use specialized equipment to screen passengers' checked baggage (or hold baggage) to prevent the boarding of prohibited items such as explosives.
Non-Passenger Screening (NPS)	At restricted-area access points across the country, non-passengers are randomly selected for screening by CATSA's screening officers. 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)	The RAIC system, created by CATSA in partnership with Transport Canada and airport authorities, uses iris and fingerprint biometric identifiers to allow non-passengers to access restricted areas of airports. The final authority that determines access to the restricted areas of the airport is the airport authority itself.

In addition, under an agreement concluded with Transport Canada in 2010, CATSA is authorized to conduct screening, where capacity exists, of cargo at smaller airports. Each of these activities is carried out effectively, efficiently, consistently, and in the public interest, as required by the *CATSA Act*.

Reporting on Results

CATSA realized a number of notable accomplishments and changes that have improved its operations in 2013/14. These initiatives will allow CATSA to continue responding to evolving threats, realize further efficiencies and improve the passenger experience. The following section presents an overview of CATSA's progress, achievements, and performance against its mandated activities. Please note this section does not include all operational initiatives for the year.[1]

Pre-Board Screening

While the definition of passenger throughput generally remains consistent across international jurisdictions, there are significant differences in how this value is calculated. Some agencies, for example, calculate throughput by screening capability

[1] 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 from program to program, CATSA assesses performance as follows:

- *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 statutory, regulatory, SOPs, operational policies 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.

(i.e., how many passengers can be screened in ideal conditions with no stoppage on the line), while others calculate it by the number of passengers actually screened regardless of the processing conditions. Overall, there is no global standard for how PBS performance metrics, including throughput, are collected or calculated. The speed at which passengers can be screened is directly dependant on a number of factors, including, but not limited to, regulations, screening equipment configuration, staffing levels, checkpoint layout and space, and the opening and closing of screening lines within the reporting period.

In Canada, CATSA's throughput levels have increased significantly since 2010. Gains in efficiencies have allowed CATSA to substantially increase the number of passengers processed per hour. By the end of 2010/11, CATSA was processing 124 passengers per hour and since then, performance has continued to improve.

Over the last few years, passenger volumes and billing rates have continued to increase; thereby triggering discussions on service levels. In order to evaluate the impact of various funding options on PBS wait time service levels, CATSA, with input from Transport Canada, developed an enhanced Wait Time Impact Model. This model, constructed in collaboration with Carleton University's Centre for Quantitative Analysis and Decision Support, uses queuing theory and scheduling optimization combined with historical data, such as passenger volumes, to estimate and project the cost of various service levels over time.

CATSA's PBS Wait Time Service Level (WTSL) is the percentage of passengers who waited less than a specified number of minutes to be screened at Canada's eight busiest airports. However, this is not a government-mandated service guarantee. To ensure CATSA's resources are allocated in an efficient and consistent manner, wait time thresholds are used as a planning tool. In 2012/13, CATSA was able to screen 96% of passengers waiting 15 minutes or less. CATSA's purchasing power for screening hours decreased in 2013/14 over its 2012/13 levels due to increasing screening contractor billing rates. Coupled with rising passenger volumes, this has resulted in passenger wait times increasing in 2013/14, to 92% of passengers waiting 15 minutes or less.

Key Accomplishments

Screening Effectiveness and Oversight

CATSA's Strategy for Screening Effectiveness (SSE) aims to improve screening officer threat detection performance to ensure prohibited threat items are not entering sterile areas. As part of the 2013/14 strategy, four areas of focus have been identified, including screening officer competency, screening contractor management and supervision, process and environment, and CATSA oversight and quality assurance.

CATSA regularly updates its Screening Officer Foundations Program to ensure effective screening officer competencies and runs continuous improvement sessions to keep screening officers up-to-date on the current environment. As part of the SSE in 2013/14, the Threat Image Protection System (TIPS) Library for screening officer training was updated to keep up with evolving threats.

The SSE also includes initiatives to ensure effective screening contractor management through performance data sharing, knowledge sharing for front-line supervision, and job shadowing initiatives between CATSA and its screening contractors. Furthermore, to improve the screening process, CATSA works with its screening contractors to optimize screening schedules.

CATSA's oversight activities ensure effective and efficient screening in the interest of the travelling public by safeguarding a balance of security and resources. These activities are a key component of CATSA's strategy to deliver operational security excellence in partnership with screening contractors, and comprise several elements designed to measure operational performance, screening consistency across airports, and customer satisfaction. As part of the SSE, CATSA has taken steps to expand its oversight to areas such as screening contractor training delivery.

CATSA's Strategy for Screening Effectiveness (SSE) aims to improve screening officer threat detection performance to ensure prohibited threat items are not entering sterile areas.

Boarding Pass Security System (BPSS)

CATSA's BPSS was first introduced in 2010 to enable boarding pass scanning at screening checkpoints to ensure their validity. Since implementation, BPSS has become an instrumental tool for the daily management of CATSA's operations across Canada. Through data collected by this system, CATSA is now able to accurately determine current passenger wait times, which helps better manage financial and human resources for PBS. BPSS enhances the following objectives:

1. **Boarding pass validation:** Assists with duplicate and fraudulent boarding pass detection;
2. **Security incident resolution:** Allows passenger identification and retrieval of relevant CCTV footage to quickly resolve breaches, claims and complaints; and
3. **Performance monitoring:** Generates de-personalized statistical reports such as wait times, throughput and passenger counts by screening line.

Security Screening Process Improvements

In January 2013, Transport Canada and the U.S. Transportation Security Administration (TSA) agreed to harmonize PBS procedures for Trusted Travellers at transborder checkpoints as part of the *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness Action Plan*. Harmonization introduces new screening procedures that provide passengers with tangible benefits and further promotes risk-based screening. A trial is being conducted at one of Toronto Pearson International Airport's transborder checkpoints, and if successful, will be implemented at the other large transborder checkpoints across Canada.

At large PBS checkpoints, CATSA currently operates a Trusted Traveller line where valid members of the NEXUS program and RAIC holders can access a dedicated queue for expedited screening. As an enhancement to this program, an eGate trial was initiated using an automated gate system that electronically verifies the Trusted Traveller

As part of a new process, which commenced in January 2014, items such as baby food, prescription medicines, and diabetic supplies are now screened using new technologies deployed across Canada's 28 major airports.

membership, validates the boarding pass and grants access to the line. The initial trial concept was developed in 2012 by a working group consisting of CATSA, CBSA and Transport Canada. In parallel, CATSA developed an interface between the eGate and the RAIC system to validate RAIC card holders. Both systems were tested in early 2013 and went live in March at the Vancouver International Airport.

The eGate trial was deemed successful as experienced Trusted Travellers were able to scan their boarding pass and NEXUS / RAIC card to gain access through the gate more rapidly.

As part of the Security Screening Process Improvement initiative, a Manual Split Lane System was designed to provide a better experience for passengers at PBS checkpoints. This modification is planned to improve passenger flow by reducing bottlenecks as it splits the last part of the screening lane. By separating bags that are cleared from those that require additional search, passengers who do not need additional search can proceed more quickly post-screening, and all passengers have more time to collect their belongings.

Screening Liquids, Aerosols, and Gels (LAGs)

In 2012, an international agreement was signed to modify the current screening method for passengers carrying LAGs, with the goal of possibly easing restrictions in the future. As part of this process, which commenced on January 31, 2014, items such as baby food, prescription medicines, and diabetic supplies are now screened using new technologies deployed across Canada's 28 major airports.

Furthermore, the 2013/14 year marked a change in the official security bags (STEBs) screening procedure. Official security bags are special plastic bags with various security features that help determine whether or not the bag was opened after the LAGs were purchased at an airport Duty Free store. Previously, the official security bags were only accepted from flights arriving from Europe. Today, CATSA accepts them from all countries without a re-screening requirement as long as the original seal is intact.

Passenger Facilitation

CATSA is committed to improving the customer experience at screening checkpoints. CATSA regularly collects feedback from passengers using on-site random intercept surveys at Canada's eight busiest airports. In 2013/14, CATSA launched its integrated passenger awareness campaign, "Breeze Through Security," in time for the busy winter travel period. The message to the travelling public emphasized that packing bags properly and knowing what to do in the queue will facilitate security screening.

CATSA's redesigned website and new mobile app are the go-to resources for travellers who seek information to make their airport security experience smooth. In 2013/14, the content and layout was optimized to ensure visitors are able to easily find information they need. CATSA has also taken to social media outlets, using Twitter, Pinterest, and YouTube, to engage in a two-way conversation with passengers.

In 2013, CATSA also launched a public outreach program called *CATSA in the Community* to inform passengers about what to expect at PBS and how they can better prepare for the experience. In addition to providing information to the general public, it addresses the unique screening concerns and requirements of those from various cultural backgrounds, as well as travellers with special needs, seniors, and those with medical devices.

Public education plays an effective role in helping passengers prepare for screening, which can increase the flow at checkpoints and improve the screening experience for everyone. *CATSA in the Community* personalizes the message for smaller groups who may have more questions or concerns about security screening. The first presentation under the program involved a lunch-and-learn event for seniors near Calgary.

PBS Performance

PBS – Effectiveness

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

PBS – Efficiency

Performance measure	Target	2011/12	2012/13	2013/14	Comments
Screening officer attrition levels	20.0%	13.9%	9.4%	9.8%	Screening officer attrition levels have continued to improve over the last several years and continue to remain below target.
Definition: The percentage of screening officers at the eight busiest airports who voluntarily resigned, died, or retired.					
PBS throughput	120	140	148	155	In 2013/14, PBS throughput was above target and has continued to increase as a result of the implementation of screening process improvements. While the definition of passenger throughput generally remains consistent across international jurisdictions, there are significant differences in how this value is calculated.[1]
Definition: The number of passengers screened per hour per line at the eight busiest airports' PBS checkpoints during busy periods.					

PBS – Consistency

Performance measure	Target	2011/12	2012/13	2013/14	Comments
Security screening compliance	98.0%	97.4%	94.3%	94.3%	CATSA launched an updated Qualtity Assurance Program for the oversight of screening contractor performance in late 2011/12. This led to the total number of non-compliant observations during the year being measured against a smaller pool of criteria, which resulted in a slightly lower compliance rate in 2012/13. The result remained steady in 2013/14; however, CATSA anticipates that compliance rates will improve as screening contractors continue implementing their Quality Assurance Programs.
Definition: The results of evaluation by CATSA Performance Officers of screening officer procedural compliance to security screening SOPs at the eight busiest airports, including passenger and carry-on security.					
National Training and Certification Program success rate	90.0%	87.2%	91.0%	90.0%	Performance in the National Training and Certification Program remained strong.
Definition: The percentage of all successful attempts at screening officer training courses (number of successful attempts / number of total attempts). This performance measure combines results for all PBS and HBS related training courses.					

[1] While the definition of passenger throughput generally remains consistent across international jurisdictions, there are significant differences in how this value is calculated. Some agencies, for example, calculate throughput by screening capability (i.e., how many passengers can be screened in ideal conditions with no stoppage on the line), while others calculate it by the number of passengers actually screened regardless of the processing conditions. Overall, there is no global standard for how PBS performance metrics, including throughput, are collected or calculated. The speed at which passengers can be screened is directly dependant on a number of factors, including, but not limited to, regulations, screening equipment configuration, staffing levels, checkpoint layout and space, and the opening and closing of screening lines within the reporting period.

PBS - In the Public Interest					
Performance measure	Target	2011/12	2012/13	2013/14	Comments
Confidence in security screening	75.0%	71.0%	71.9%	73.8%	Confidence in security screening increased in 2013/14.
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 7-point scale survey questionnaire.					
Satisfaction with overall screening experience	85.0%	82.3%	82.6%	82.0%	Satisfaction with the overall screening experience remains steady.
Definition: The percentage of passengers surveyed who express satisfaction with their overall experience with security screening at select busiest airports.					
Customer Satisfaction Index	85.0%	80.5%	80.9%	80.3%	The Customer Satisfaction Index remains steady.
Definition: 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. Results are based on quarterly survey data collected from the eight busiest airports in Canada.					
Passenger complaints closed in <30 days	90.0%	79.8%	79.8%	81.3%	Results have slightly improved.
Definition: The percentage of passenger complaints received each quarter at the eight busiest airports that are closed within 30 calendar days of being received.					

Hold Baggage Screening

One of CATSA's top priorities continues to be the life-cycle management of its HBS system. This initiative ensures that CATSA's equipment remains compatible and employs the best industry practices and standards to deliver a secure experience for air travellers. It started in fiscal year 2011/12 and is in support of the joint Canada-U.S. *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness Action Plan*. The program will lead to cost savings from the elimination of duplicate screening as well as facilitate easier transiting of passengers departing from Canada and transiting through U.S. airports.

During the past fiscal year, CATSA continued its 10-year HBS Recapitalization Program. Deployment focuses firstly on Canadian airports with U.S. pre-clearance facilities. It will enable CATSA to upgrade its HBS technologies to maintain international equivalency. Currently, the HBS Recapitalization Program encompasses 32 airports and is comprised of 46 projects.

Through maintenance services contracts with NAV Canada and equipment manufacturers, preventive and corrective maintenance activities were also performed throughout the year to ensure the continued operation of HBS equipment.

HBS Performance

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	2011/12	2012/13	2013/14	Comments
Screening officer attrition levels	20.0%	13.9%	9.4%	9.8%	Screening officer attrition levels have continued to improve over the last several years and continue to remain below target.

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

HBS- Consistency

Performance measure	Target	2011/12	2012/13	2013/14	Comments
National Training and Certification Program success rate	90.0%	93.1%	91.0%	90.0%	Performance in the National Training and Certification Program remained strong.

Definition: The percentage of all successful attempts at screening officer training courses (number of successful attempts / number of total attempts). This performance measure combines results for all PBS and HBS related training courses.

HBS - In the Public Interest

Performance measure	Target	2011/12	2012/13	2013/14	Comments
Confidence in security screening	75.0%	71.0%	71.9%	73.8%	Confidence in security screening increased in 2013/14.

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 7-point scale survey questionnaire.

Non-Passenger Screening

Under aviation security regulations, CATSA must screen non-passengers accessing restricted areas of airports. These people include flight and cabin crews, airline customer service personnel, baggage handlers, vendors and other airport employees. Non-passengers are screened using the same equipment used to screen passengers. Bags, tools and other items carried by non-passengers may also be checked with X-ray and/or explosives-detection equipment.

In 2013/14, CATSA continued minimizing the risk of non-passengers bringing prohibited items into restricted areas. In support of the strengthened ICAO standard for NPS and security controls, Transport Canada and CATSA developed a risk-based strategy to enhance the NPS program and increase coverage at designated restricted area access points. The Government of Canada approved the proposed program and provided CATSA with funding for implementation which was achieved ahead of schedule.

CATSA's operating and capital expenditures for implementation were lower than planned and the remaining funds have been allocated to other operational needs based on a security risk assessment, following discussions with Transport Canada. CATSA is pleased to report a smooth transition to meeting the new requirement due to the effective collaboration with airport authorities.

Restricted Area Identity Card

The RAIC is a security pass issued by local airport authorities to all non-passengers working in the restricted areas of Canada's 28 major airports. The card must be carried and displayed by all airport workers who have Transportation Security Clearance from Transport Canada. To verify a non-passenger's identity, each card has a built-in computer chip with a microprocessor and memory to store fingerprint and iris biometric identification data. The RAIC program includes the cards, the fingerprint and iris readers installed at airport terminals, and a network infrastructure that links airports to a secure central database.

In support of the strengthened ICAO standard for NPS and security controls, Transport Canada and CATSA developed a risk-based strategy to enhance the NPS program and increase coverage at designated restricted area access points.

When it became fully operational in 2007, the RAIC program developed by CATSA was the world's first dual biometric (iris and fingerprint) airport identification system for non-passengers using restricted areas. CATSA continues to be responsible for developing and maintaining the RAIC system, installing and maintaining the fingerprint and iris readers at airport terminals, and the network infrastructure. In 2013/14, CATSA continued to work with airport authorities on the management of the RAIC system, which has led to function enhancements and improved system reliability.

Internal Services

Since 2010, CATSA has significantly reduced discretionary spending such as travel and professional services. As CATSA constantly adjusts and strives to enhance its financial agility, the organization continues to reallocate all available funds towards delivering screening services and associated support.

Government of Canada Strategic Alignment

As expressed in Budget 2013, the Government of Canada committed to aligning the pension plans of Crown corporations with key features of the Public Service Pension Plan. In support of this commitment, CATSA closed its defined benefit pension plan to new members as of June 30, 2013. A new defined contribution pension plan has been established for new hires as of July 1, 2013.

CATSA has also reviewed the cost-sharing principles for its Pension Plan, aligning CATSA's employee contribution rates with those of the *Public Service Superannuation Act* Pension Plan, which will result in on-going savings for the organization. These savings will be applied towards the current service costs and solvency deficit of the closed defined benefit plan. Together, such changes will ensure that CATSA's pension plan is affordable and sustainable over time.

Business Intelligence (BI) System

CATSA's BI system is an amalgamation of data gathered from various operational and corporate tools and systems. The system provides centralized, automated and timely access to key information. It can combine, connect and report on all the data inputs. It also generates information that is standardized, consistent and accurate, ensuring high quality corporate data. CATSA uses BI to analyze trends and forecast needs in several areas of decision-making such as screening operations, technology, finance, procurement and human resources and a host of other strategic and administrative areas across the organization. The analysis and reports are used to help make informed decisions.

CATSA has also completed a major networking project of its screening equipment. CATSA's X-ray equipment used at checkpoints across the country is networked through a state-of-the-art system incorporating hundreds of units into one central application. Data from these systems is readily available through BI and supports critical management decision-making. This now provides CATSA with a consolidated view of the performance of screening equipment, with data feeding and helping to direct operations, administration, maintenance and performance. With the networking of both carry-on and hold-baggage x-rays, CATSA has improved speed and effectiveness as well as increased operational efficiency.

Business Continuity and Emergency Management Program

In 2013/14, CATSA also collaborated with key responders as part of the Business Continuity and Emergency Management Program. Through two national exercises, CATSA and its screening contractors were able to practise and solidify emergency response capability for threats identified in CATSA's Corporate Risk Profile.

In the past year, Transport Canada participated in the development of each emergency exercise scenario as well as during each national exercise. Links were established with PHAC in the review of CATSA's Pandemic Plan where the agency provided training to CATSA management and advised in the design of a national exercise for CATSA and its screening contractors.

Looking Ahead

Since Budget 2010, CATSA has not been funded to fully address increases in screening contractor billing rates and rising passenger volumes. As a result, its ability to purchase screening hours has and will continue to decline.

CATSA first began to report this pressure to government in 2010/11. CATSA, working with Transport Canada, has been able to manage these growing pressures through the progressive implementation of efficiencies and improvements to its operations. However, after successive operational and organizational reviews, further significant gains in efficiency sufficient to offset the growing pressures are likely no longer feasible, although CATSA continues to constantly strive to improve every aspect of its operations.

Recognizing that there is no government set service level, CATSA will operate within its approved reference levels and will continue to meet its security mandate. However, with the financial considerations described above, it is forecasted that passengers will wait longer to be screened.

Enhanced NPS

The ICAO recently adopted a strengthened NPS standard, which came into effect in July 2013. The enhanced standard requires countries to ensure that non-passengers and items they carry are subject to screening and security controls prior to entering security restricted areas serving international civil aviation operations.

In 2013, Transport Canada, with the support of CATSA, developed a risk-based strategy to enhance the NPS program. This strategy has allowed Canada to meet the enhanced NPS standard.

Security Screening Process Improvements

As security is CATSA's top priority, the organization continuously invests in pilot projects and trials in an effort to identify ways to improve the organization's screening effectiveness and efficiency performance.

Overall, the majority of CATSA's pilot projects and trials are leading to notable process improvements and are implemented nationally, where feasible. They also help to ensure that CATSA's operations continue to evolve.

In particular, beginning in 2014/15, as part of its ongoing commitment to maximize the efficiency and effectiveness of its operations, CATSA will conduct a trial for a new checkpoint design. The project will seek to optimize a PBS checkpoint through the deployment of security screening process improvements and proven technology.

Industry Partners

The environment in which CATSA operates is highly integrated, with many different entities – airport authorities, air carriers, law enforcement agencies – assigned specific security responsibilities. From the scheduling of flights, passenger check-in, screening of passengers and their belongings, baggage handling, loading of checked baggage, or to boarding of aircraft, all of these processes must operate smoothly and seamlessly to ensure the effective and efficient movement of people and goods. This integration requires a high degree of communication and coordination between CATSA and its security partners to not only ensure the effective and efficient screening of passengers and baggage, but to ensure the continuous movement of the system. Delays at one airport can have ripple effects across the entire system.

CATSA recognizes that its relationships with these partners are critical to the overall performance and success of the aviation industry and in the day-to-day success in delivering its mandate. As a result, in overseeing its operations, CATSA is committed to maintaining collaborative working and strategic relationships with industry partners.

Office of the Auditor General (OAG) Special Examination

Under the *Financial Administration Act*, CATSA is subject to a special examination at least once every 10 years. This examination is used to determine whether CATSA's systems and practices provide it with reasonable assurance that: its assets are safeguarded and controlled; its financial, human and physical resources are managed economically and efficiently; and that its operations are carried out effectively.

The presentation of the Special Examination Report to the Board of Directors is expected in 2015.

Corporate Governance

Board of Directors

In accordance with the *CATSA Act*, CATSA is an agent Crown corporation, accountable to Parliament through the Minister of Transport. It is governed by an 11-member Board of Directors, appointed by the Governor in Council.

The Board is chaired by Lloyd McCoomb, who was appointed for a four-year term in October 2012. There are four positions for industry nominees; two are nominated by representatives of the airline industry and two by representatives of airport operators. All directors are independent of management.

For more information on CATSA's Board of Directors, including Director profiles and Board Committees, please visit the Board of Directors section of CATSA's website.

Board members' biographies can be accessed here.

As of March 31, 2014, CATSA's Board of Directors included:

- Lloyd McCoomb, Chairperson
- Michael Campbell
- William Deluce
- Jean-Marc Dufour
- Dora Koop
- Allan Rowe
- Peter Wallis
- Joanne Whittle
- Melissa Coulson
- Paul Benoit
- Vacancy

The Board of Directors has a number of responsibilities, including the following:

- drafting, amending or repealing corporate by-laws (*Financial Administration Act*, s.114);
- approving CATSA's Corporate Plan for recommendation to the Minister;
- monitoring corporate performance;
- approving the President and CEO's objectives for the year and evaluating his/her performance;
- 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 2013/14, the Board of Directors continued to oversee the operational and financial performance of the organization and compliance with CATSA's Corporate Plan and the corporation's quarterly financial information. The Board of Directors also monitored the key risks faced by the organization and CATSA's corporate governance practices.

The Board of Directors oversaw key program activities including ongoing trials and initiatives to promote efficiency and effectiveness in passenger screening, CATSA's HBS recapitalization plan and the implementation of enhanced NPS program to meet the more stringent standard put forth by the ICAO in July 2013.

In addition, the Board provided significant oversight in 2013/14 regarding human resource compensation and CATSA's pension plans, including various compensation review initiatives, the implementation of a Defined Contribution pension plan for new employees, and a significant review of investment strategies and funding for CATSA's Defined Benefit pension plan.

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. In addition to participating as members of CATSA's Board of Directors, every Director serves on at least two committees.

Board Remuneration, Expenses, and Meeting Attendance

Directors and the Chairperson 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. These expenses are posted quarterly on CATSA's website, as part of Proactive Disclosure.

Board member	Board Retainer (A)	Per Diems (B)	Total Remuneration (A+B)
Lloyd McCoomb (Chair.)[1]	$ 10,800	$ 29,820	$ 40,620
Michael Campbell[2]	$ 5,400	$ 15,015	$ 20,415
William Deluce	$ 5,400	$ 11,310	$ 16,710
Jean-Marc Dufour	$ 5,400	$ 13,845	$ 19,245
Allan Rowe[3]	$ 5,400	$ 16,185	$ 21,585
Peter Wallis	$ 5,400	$ 14,625	$ 20,025
Dora Koop[4]	$ 5,400	$ 15,600	$ 21,000
John Kaldeway[5]	$ 5,026	$ 15,405	$ 20,431
Gene McLean[6]	$ 5,047	$ 8,385	$ 13,432
Donald Robinson[7]	$ 4,507	$ 10,140	$ 14,647
H. Glenn Rainbird[8]	$ 395	$ 780	$ 1,175
Joanne Whittle	$ 5,026	$ 10,725	$ 15,751
Melissa Coulson	$ 893	$ 1,950	$ 2,843
Paul Benoit	$ 374	$ 0	$ 374
TOTALS	**$ 64,468**	**$ 163,785**	**$ 228,253**

Total remuneration (annual retainer and per diems) paid to directors and the Chairperson was $228,253 in 2013/14 compared to $251,504 in 2012/13.

Board and Committees Attendance

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.

Board member	Board Meetings	Committees			
		Corporate Governance and Human Resources	Audit	Pension	Strategy
Lloyd McCoomb[1]	9/9	4/4	9/9	4/4	4/4
Michael Campbell[2]	6/9	1/4 (observer)	5/9	4/4	4/4
William Deluce[9]	8/9	2/4	6/9	–	2/4
Jean-Marc Dufour	9/9	4/4	5/9	4/4	–
Allan Rowe[3]	8/9	–	9/9	–	4/4
Dora Koop[4]	8/9	4/4	8/9	–	–
John Kaldeway[5]	6/9	–	9/9	–	4/4
Gene McLean[6]	7/9	3/4	5/9	3/4	–
Donald Robinson[7]	7/9	3/4	7/9	–	–
H. Glenn Rainbird[8]	1/9	–	–	0/4	0/4
Peter Wallis[9]	8/9	–	7/9	4/4	2/4
Joanne Whittle[9]	8/9	1/4	4/9	4/4	3/4
Melissa Coulson	2/9	1/4	2/9	–	–
Paul Benoit	1/9	–	0/9	–	–

1 Ex-officio member of all Board Committees
2 Chairperson of the Pension Committee
3 Chairperson of the Audit Committee
4 Chairperson of the Corporate Governance and Human Resources Committee
5 Chairperson of the Strategy Committee. Term ended on February 3, 2014, but remained on the Board of Directors until the appointment of Mr. Benoit on March 6, 2014. Peter Wallis was named Chairperson of the Strategy Committee on March 7, 2014.
6 Resigned from the Board of Directors effective March 7, 2014.
7 Term ended on May 14, 2012, but remained on the Board of Directors until the appointment of Ms. Coulson on January 30, 2014.
8 H. Glenn Rainbird's term ended January 26, 2013, but remained on the Board of Directors until the appointment of Joanne Whittle on April 25, 2013.
9 In December 2013, three Board members were re-assigned to different committees.

Red: Indicates the Board member was appointed in 2013/14.

CATSA Management Team

CATSA is led by a senior management committee, headed by Angus Watt, the President and CEO. The senior management committee includes five vice-presidents, each representing a specific portfolio.

Angus Watt, President & CEO

- **Mario Malouin**
  Vice-President & Chief Financial Officer
- **Neil Parry**
  Vice-President, Service Delivery
- **Lise Patry**
  Vice-President, Legal & Corporate Secretary
- **Mike Saunders**
  Vice-President & Chief Technology Officer
- **John Stroud**
  Vice-President, Human Resources & Corporate Affairs

For more information on CATSA's senior management team, including profiles, please visit the Executive Team section of CATSA's website.

Disclosure

Report on CATSA's *Official Languages Act* Requirements

As a Crown corporation interacting with the public daily, CATSA has established programs and procedures to enhance its compliance with the *Official Languages Act* requirements. The organization is dedicated to working in both official languages in designated bilingual airports and administrative offices. In partnership with its screening contractors, CATSA offers services to travellers in French and English at bilingual airports. This ensures clear communication as CATSA carries out its screening duties in the most effective, efficient and respectful manner possible. CATSA reinforces its legislated obligations through its third-party screening contracts, SOPs, and training of screening officers.

CATSA regularly assesses front-line operations to ensure they meet *Official Languages Act* obligations. Compliance with official languages procedures and contractual requirements is achieved through daily oversight and a Service Excellence Program. CATSA offers incentives to screening contractors to ensure they meet official languages requirements. It also conducts regular passenger surveys and monitors complaints to refine and improve practices and performance.

In 2013/14, CATSA held various activities to highlight *Les Rendez-vous de la Francophonie*, *Journée internationale de la Francophonie* and *Linguistic Duality Day*. These activities included headquarters and regional participation and helped create awareness of Canada's French linguistic and cultural communities.

CATSA also started planning its decennial assessment of the demand for services in both official languages at its screening checkpoints, which will be carried out in 2014/15. The results will ensure CATSA continues to provide services to passengers in both official languages at airports with sufficient demand.

Other activities undertaken by CATSA in 2013/14 included a review of its Official Languages Policy and a re-examination and streamlining of its procedures when staffing bilingual positions. After an extensive procurement process, CATSA also awarded five-year contracts to new suppliers for second-language training.

CATSA and the *Privacy Act*

The Office of the Privacy Commissioner (OPC) conducted an audit of CATSA's personal information management practices and some screening technologies in 2011. The audit, containing 12 recommendations, was tabled in Parliament on November 17, 2011. In response, CATSA has addressed all 12 of the OPC recommendations, including establishing Retention and Disposition Schedules for the personal passenger information collected pursuant to CATSA's mandate.

CATSA strives to incorporate the legislative obligations under the *Privacy Act* and the 10 principles of the *Canadian Standards Association Model Code* into every program, activity or system that it develops.

Report on Access to Information and Privacy Act Requests

CATSA is subject to the *Access to Information Act* and the *Privacy Act* and strives to meet both the spirit and the legal requirements of these two Acts. From April 1, 2013 to March 31, 2014, CATSA received 25 requests under the *Access to Information Act*. When added to the two outstanding requests from the previous year, CATSA processed 27 requests. Of these, 23 were completed within the fiscal year and four were carried forward to 2014/15.

In addition, from April 1, 2013 to March 31, 2014, CATSA received 10 consultations under the *Access to Information Act* from other federal departments. All 10 requests were completed within the fiscal year. CATSA also received seven informal Access to Information requests for 31 packages that were previously released. For the same reporting period, CATSA received 12 requests under the *Privacy Act* and all were completed within the fiscal year.

Employment Equity and Multiculturalism

CATSA's senior management committee is dedicated to creating a culture of inclusion by identifying and eliminating barriers to equal employment. CATSA's three-year employment equity plan will be updated and implemented across the entire organization in the next fiscal year.

CATSA produces and submits an annual report on its fulfillment of the *Employment Equity Act*, as well as an annual report on its fulfillment of the *Canadian Multiculturalism Act*.

Canadian Environmental Assessment Agency

CATSA has not engaged in any projects over the current reporting year that have or may have an environmental impact.

Public Service Disclosure Protection Act

CATSA is subject to the *Public Service Disclosure Protection Act (PSDPA)* which is part of the Government of Canada's ongoing commitment to developing and sustaining a culture of integrity throughout the federal public service. CATSA strives to foster a work environment where individual rights are respected and where personal integrity is uncompromised.

CATSA reports annually to the Office of the Chief Human Resources Officer on the activities respecting disclosures made under the PSDPA within the organization as well as any awareness activities undertaken during the year to inform employees about the PSDPA and the mechanisms available to them for disclosures of wrongdoing. In 2013/14, CATSA did not receive any allegations of wrongdoing, inquiries or disclosures under the PSDPA.

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 barcodes, which ensures that boarding passes are not fraudulent and that they have not been tampered with.

Canada's eight busiest airports

In alphabetical order: Calgary International, Edmonton International, Halifax (Stanfield International), Montréal (Pierre Elliott Trudeau International), Ottawa (Macdonald-Cartier 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 the following airports (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), Sudbury, Thunder Bay International, Toronto City Centre (Billy Bishop), Victoria International, Whitehorse International, Windsor International, and Yellowknife.

CBSA

Canada Border Services Agency

CCTV

Closed-Circuit Television System

EDS

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

FBS

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

HBS

Hold Baggage Screening: the screening of checked baggage using explosives detection equipment.

ICAO

International Civil Aviation Organization: Canada is a member of this organization, which brings together states and key industry organizations to determine areas of strategic priority, develops policies and standards, coordinates global monitoring, analysis and reporting initiatives, and delivers targeted assistance and capacity building.

LAGs

Liquids, Aerosols and Gels

NEXUS Program

NEXUS: Background check security program allowing pre-approved, low-risk travellers to enjoy an expedited security screening process through a dedicated queue and screening lane.

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.

NTCP

National Training and Certification Program

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 sterile and restricted areas of Canada's major airports.

SOP

Standard Operating Procedure

STEB

Secure Tamper Evident Bag

TBS

Treasury Board of Canada Secretariat

TIPS

Threat Image Protection System

TSA

U.S. Transportation Security Administration

TTCSL

Trusted Traveller CATSA Security Line: A Trusted Traveller lane at large PBS checkpoints where valid members of the NEXUS program and RAIC holders can access a dedicated queue for expedited screening.

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) outlines CATSA's financial results and operational changes for the year ended March 31, 2014. This MD&A should be read in conjunction with CATSA's audited annual financial statements and accompanying notes for the year ended March 31, 2014, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The information in this report is expressed in thousands of Canadian dollars and is current to June 12, 2014, unless otherwise stated.

Forward-looking statements

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.

Materiality

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.

Comparative figures

Certain comparative figures contained in this MD&A have been restated, as a result of the retrospective adoption of amendments to *IAS 19, Employee benefits*, effective April 1, 2013. The change in accounting policy is disclosed in detail in note 3(p) of the audited annual financial statements for the year ended March 31, 2014.

Part 1 Corporate Overview

CATSA is an agent Crown corporation mandated to provide effective and efficient screening of persons who access aircraft or restricted areas through screening points, the property in their possession or control and the belongings or baggage that they give to an air carrier for transport.

Mandate and mission

CATSA is an agent Crown corporation mandated to provide effective and efficient screening of persons who access aircraft or restricted areas through screening points, the property in their possession or control and the belongings or baggage that they give to an air carrier for transport. CATSA is also responsible for ensuring consistency in the delivery of screening across Canada and for air transport security functions that the Minister of Transport may assign to it, subject to any terms and conditions that the Minister may establish. In carrying out its responsibilities, CATSA must do so in the public interest, having due regard to the interest of the travelling public. CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada.

To achieve this, CATSA conducts screening in the following four areas:

- PBS: the screening of passengers, their carry-on baggage and their personal belongings;
- HBS: the screening of checked baggage;
- NPS: the screening of non-passengers on a random basis; and
- RAIC Program: the administration of access control to airport restricted areas through biometric identifiers.

In addition to its mandated activities, CATSA has an agreement with Transport Canada to conduct screening of cargo at smaller airports. This program was designed to screen limited amounts of cargo during off-peak periods and involves using existing technology and resources.

Legislative Framework

CATSA was established as an agent Crown corporation pursuant to the *CATSA Act* on April 1, 2002. CATSA is fully funded by parliamentary appropriations and is accountable to Parliament through the Minister of Transport.

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.

CATSA is subject to domestic legislation and regulations in the way that it conducts its business and screening activities. These acts and regulations include: the C*ATSA Act*; *the Financial Administration Act*; *the Aeronautics Act*; *Canadian Aviation Security Regulations*; and *Security Screening Measures.*

Industry Partners

CATSA operates in a highly integrated environment, with several different entities assigned to specific security responsibilities, including airport authorities, air carriers and law enforcement agencies. Activities, such as the scheduling of flights, passenger check-in, screening of passengers and their baggage, loading of checked baggage and boarding of aircraft, must operate seamlessly to ensure optimal movement of people and goods.

This integration requires a high degree of communication and coordination between CATSA and its partners, to not only ensure the effective and efficient screening of passengers and their baggage, but to ensure continuous movement through the system. Delays at one airport can have ripple effects across the system. CATSA recognizes that good relationships with partners are critical to the overall performance and success of aviation security activities and in the day-to-day success of delivering its mandate. CATSA is committed to strengthening and building collaborative relationships with industry partners.

Part 2 Operating Environment

CATSA's operations are greatly influenced by events and developments occurring both domestically and internationally.

Service Delivery

Service Delivery Model

CATSA's current service delivery model uses third-party contractors to provide a screening workforce. Its service agreement model consists of four regions (East, Central, Prairies and Pacific). This cost-effective model ensures that CATSA can maximize its programs and internal resources, and that efforts are focused in the areas where they are most needed. CATSA remains committed to maximizing the benefits of the ASSAs and will continue to work collaboratively with its screening contractors to build on the progress made over the past year, as well as continue to promote operational excellence in the future.

Labour Relations

As of March 31, 2014, all collective bargaining agreements between screening contractors and the unions representing screening officers have been signed across Canada

As of March 31, 2014, all collective bargaining agreements between screening contractors and the unions representing screening officers have been signed across Canada. They will remain in effect until March 31, 2015.

CATSA has certain responsibilities with regard to screening officers' work, such as developing SOPs and certifying screening officers. However, given the nature of the third-party service delivery model, CATSA has no direct role in labour relations and relies upon its screening contractors to establish collective bargaining agreements and manage labour relations with their unions. CATSA, along with screening contractors, monitors the workforce closely to maintain labour stability over the long term.

Security Threat Environment

Since CATSA's inception following the terrorist attacks of 9/11, the international aviation industry has faced several attempts to undermine the integrity of the aviation system. In the face of these ongoing and evolving threats, aviation security remains of great importance to Canada. CATSA actively works with Transport Canada to ensure that it keeps pace with new threats, evolving technologies and improved international security standards.

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 has the ability to respond to new requirements or exceptional events.

Regulatory Environment

CATSA is affected by regulatory changes implemented by Transport Canada, as well as by major international partners, such as the U.S. and the European Union. When regulatory changes are implemented by other countries, Transport Canada seeks to work with its counterparts to minimize the disruption to passengers flying internationally. Furthermore, as a member of ICAO, Canada has an obligation to comply with ICAO aviation security standards.

Transport Canada is responsible for monitoring regulatory changes of its international partners, and assessing the operational and financial impact that any possible future regulatory changes could have on Canada's aviation security system, including CATSA's screening mandate.

CATSA successfully deployed new screening technologies in 2013/14 and is using these technologies to screen exempt LAGs, such as baby food, prescription medicines and diabetic supplies.

In 2012, Canada signed an international agreement for the relaxation of current restrictions on LAGs carried by passengers. CATSA successfully deployed new screening technologies in 2013/14 and is using these technologies to screen exempt LAGs, such as baby food, prescription medicines and diabetic supplies. Canada has also expanded its official security bags program and is now accepting them from all countries.

In addition, the ICAO recently adopted an enhanced NPS standard. In support of the strengthened ICAO standard for NPS and security controls, Transport Canada, with the support of CATSA, developed a risk-based strategy to enhance the NPS program. This strategy has allowed Canada to meet the enhanced NPS standard.

Part 3 Economic Environment

Events and developments occurring in the economic environment can also greatly influence CATSA's operations.

Economic Outlook

Global economic growth fell from 3.1% in 2012 to an estimated 2.9% in 2013. However, it is expected to strengthen over the next three years, increasing to 3.3% in 2014 and 3.7% in 2015 and 2016. In Canada, the economy grew by 2.0% in 2013, and is projected to grow by 2.5% in 2014 and 2015. It is expected that growth will slow to 2.0% in 2016.[1]

Passenger Growth And Screening Contractor Billing Rates

Economic growth generally leads to increased passenger travel. Most recently, Transport Canada projected that the number of enplaned passengers at Canadian airports would increase by 3.2% in 2014 compared to 2013, and is expected to grow in each of 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 or the introduction of new services by air carriers. For CATSA, a change in passenger traffic can often lead to a higher or sudden demand for screening hours and increased operating expenditures. To support any changes in passenger volumes that may occur, CATSA closely examines its purchases of screening hours among airports. CATSA also works closely with its industry partners on the impact of operational factors, such as flight schedules, available space and passenger arrival patterns, to help manage potential issues related to large influxes of passengers.

In addition to passenger growth, screening contractor billing rates will increase annually over the term of the ASSAs. These rate increases are set in accordance with the terms of the contracts and are not directly impacted by the rate of inflation. Nevertheless, this results in an increase in the cost of screening hours, putting further pressure on CATSA's budget for screening hours.

1 Bank of Canada, *Monetary Policy Report*, April 2014.

Part 4 Government Funding

As an organization fully funded by parliamentary appropriations, CATSA needs to continually ensure that there is sufficient funding available to deliver the organization's mandate.

As an organization fully funded by parliamentary appropriations, CATSA needs to continually ensure that there is sufficient funding available to deliver the organization's mandate.

CATSA made several proposals that amounted to $59.7 million in annual operating savings by 2014/15, as part of the Government of Canada's Economic Action Plan 2012 Spending Review. As announced in Budget 2012, these proposals were approved by the government and CATSA's reference levels were reduced accordingly. However, CATSA was subsequently informed that one of its proposals would not proceed, and the associated planned savings of $27.6M did not materialize. As of March 31, 2013, CATSA has implemented all of its other approved initiatives, and has fully realized the associated savings in 2013/14. In addition, during the year, CATSA obtained funding in support of the strengthened ICAO standard for NPS and security controls.

CATSA continues to work with operating funding levels that do not fully address rising passenger volumes and increases in screening contractor billing rates. As a consequence, the organization has witnessed higher passenger wait times compared to the prior year. CATSA is working with Transport Canada to address the impact of this on its operations and the travelling public.

Part 5 Capability to Deliver

Two elements that are critical to the delivery of CATSA's mandate are the screening workforce and the screening technology deployed at airports.

CATSA's ability to deliver its mandated activities is contingent upon both its front-line operations and its internal services that support those operations.

Critical Screening Elements

Two elements that are critical to the delivery of CATSA's mandate are the screening workforce and the screening technology deployed at airports.

Screening Workforce

The screening workforce plays a key role in identifying threats to aviation security. As a result, CATSA dedicates significant resources to strengthening it.

In 2013/14, CATSA continued to focus on developing and implementing initiatives designed to strengthen the effectiveness of its operations. Four main areas of focus were: screening officer competency; screening contractor management and supervision; process and environment; and CATSA oversight and quality assurance.

In addition, CATSA is continually working with its screening contractors to involve screening officers in the facilitation of passengers, while maintaining a high level of security. Facilitation improves passenger preparedness, which results in a better passenger experience and improved operational throughput.

Screening Technology

To carry out its mandated screening activities, CATSA must have reliable and sophisticated screening technology that can identify threats to the aviation system. In support of this, CATSA is in the process of replacing its HBS equipment that is reaching the end of its useful life, with equipment that has greater and more enhanced screening capabilities.

Under Transport Canada's direction, CATSA formulated an accelerated deployment plan for the life-cycle management of its HBS equipment for airports with U.S.-bound flights. This was in support of the Canada-U.S. agreement, *Beyond the Border Declaration for a Shared Vision for Perimeter Security and Economic Competitiveness.* The deployment plan will see 100% of checked baggage originating from Canadian airports with U.S. pre-clearance facilities screened with new technology. This initiative will expedite connection times by eliminating the need for the TSA to re-screen connecting baggage originating from these Canadian airports.

In 2013/14, CATSA focused mainly on the deployment of its new HBS system at Canada's eight busiest airports in support of this agreement. CATSA continues to work closely with the various stakeholders to refine its multi-year deployment plan.

Over the past year, CATSA also purchased advanced trace explosive detection equipment for PBS, HBS and the enhanced NPS program. In addition, CATSA initiated the deployment of screening technology for LAGs at PBS checkpoints across Canada as a result of the relaxation of current restrictions.

Lastly, CATSA successfully completed a software upgrade for FBS units deployed at PBS checkpoints. This enhancement is expected to reduce false alarms and generate screening efficiencies at Canada's eight 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.

In 2012/13, CATSA conducted a review of its total compensation package, which benchmarked CATSA's compensation package against a broad range of public and private sector organizations. As a result of this review, CATSA closed its defined benefit pension plan to new members as of June 30, 2013, and established a new defined contribution pension plan for new hires effective July 1, 2013. In addition, CATSA reviewed the cost-sharing principles for its defined benefit pension plan, aligning CATSA's employee contribution rates with those of the *Public Service Superannuation Act* Pension Plan. These initiatives will result in savings for the organization which will be applied towards the current service cost and solvency deficit payments of the closed defined benefit plan. Together, these changes will ensure that CATSA's pension plan is affordable and sustainable over time.

Following the total compensation review conducted in 2012/13, the organization is currently reviewing its salary structure to ensure that it is coherent, affordable and competitive.

Part 6 Managing Risk

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.

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 approach 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:

- deliver mandated screening in an effective, efficient and consistent manner while safeguarding the interests of the travelling public; and
- 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 direction from Transport Canada to respond to threat and risk information identified by intelligence agencies. The organization's mandated programs provide a layer of security that assists in reducing aviation security risk across the system.

Risk Management

CATSA has established a risk management framework to identify the key risks associated with its business and operating activities. It also evaluates the probability and potential impact of risk occurrences and defines mitigation measures to avoid or reduce risk. The framework is linked to the organization's annual planning process to ensure that higher-risk program areas and activities 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 of Directors' key function and responsibilities are to provide strategic direction, financial oversight, corporate oversight and governance. With respect to risk management, it ensures that management identifies, monitors and manages CATSA's corporate risks. It is responsible for providing clear direction of risk attitude, and approving the risk management policy as well as the corporate risk profile. The Board of Directors is kept apprised of any changes to the risk profile through quarterly briefings.

Senior Management Committee

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

Risks and Uncertainties

CATSA is exposed to a variety of risks within the context of its operating environment. The following is a summary of CATSA's key corporate risks.

Mandated Services Risk

Detection capability

CATSA is mandated to provide screening in accordance with the security regulations, measures and directives set by Transport Canada. There is a risk that CATSA may not detect all prohibited items, which may result in substantial consequences to the civil aviation system.

To address this risk, CATSA works to continually review and improve the effectiveness of its operational processes and procedures, and also maintains a capital program to support the replacement and upgrading of equipment.

Threat and risk information

The continually evolving threat environment and aviation security trends may challenge CATSA's ability to act on emerging threats and risks. There is a risk that 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 conducts continual monitoring and analysis of threat and risk information from external sources and disseminates this information to the appropriate decision makers. Detailed integrated response strategies, including business continuity and emergency response plans, are in place to respond to this threat and risk information based on CATSA's SOPs. These plans are periodically tested and exercised to strengthen their resilience.

Capacity Risk

CATSA is facing a variety of external challenges and pressures such as increases in screening contractor billing rates and rising passenger volumes. As a result, its ability to purchase screening hours will decline over each of the next five years, and passengers will wait longer to be screened.

CATSA is working with Transport Canada to address the impact on its operations and the travelling public to mitigate this risk.

CATSA continually monitors screening contractor performance and has developed a screening contractor relationship management framework, which promotes a systematic and collaborative relationship between CATSA and the screening contractors.

Service Delivery through Third-Party Risk

Illegal or legal labour disruptions

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

To address this risk, CATSA continually monitors labour issues between screening contractors and the unions representing screening officers. In the event of a labour disruption, CATSA has prepared labour contingency plans with operational, legal and communications components. However, CATSA's ability to directly influence the return to normal service is limited.

Service delivery model

Given CATSA's service delivery model, the organization is entirely dependent on screening contractors for delivering a critical and mandated service for Canadians. There is a risk that if a screening contractor is unable to provide screening services as contracted, CATSA's service delivery may be negatively impacted.

To address this risk, CATSA continually monitors screening contractor performance and has developed a screening contractor relationship management framework, which promotes a systematic and collaborative relationship between CATSA and the screening contractors.

Reputational Risk

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 this may damage CATSA's reputation.

To address this risk, CATSA continues to improve the passenger experience by 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 communication strategies, such as conducting passenger surveys and expanding the use of social media to engage its multiple stakeholder groups.

Management Systems/Control Systems Risk

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

To address this risk, CATSA has a variety of physical and information technology security controls in place and conducts privacy impact assessments for all new or modified programs and activities that involve the use of personal information. CATSA has also established privacy policies and procedures to safeguard the organization against this risk.

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 U.S. 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.

Transport Canada recently approved CATSA's request to hedge its foreign exchange risk using financial instruments. In the coming year, CATSA will draft a hedging policy and design internal procedures to operationalize its hedging strategy.

Part 7 Internal Controls

Management is responsible for establishing and maintaining a system of internal controls over financial reporting. An integral part of this responsibility is CATSA's internal control certification program, which involves an assessment of the design and effectiveness of key internal controls over financial reporting. The program is based on the Committee of Sponsoring Organizations of the Treadway Commission framework, and TBS's *Certification and Internal Control Regime for Crown Corporations.*

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

Part 8 Analysis of Financial Results

Statement of Comprehensive Income

The following section provides information on key variances within the Statement of Comprehensive Income for 2013/14 compared to 2012/13.

Key Financial Highlights - Statement of Comprehensive Income

(Thousands of Canadian dollars)	2013/14	2012/13 (restated)	$ Variance	% Variance
Expenses[1]				
Screening services and other related costs	**$ 351,401**	$ 347,803	$ 3,598	1%
Program support and corporate services	**78,203**	82,771	(4,568)	(6%)
Depreciation and amortization	**61,419**	73,120	(11,701)	(16%)
Equipment operating and maintenance	**46,588**	43,694	2,894	7%
Total expenses	**$ 537,611**	$ 547,388	$ (9,777)	(2%)
Total other expenses (income)	**1,501**	(1,654)	3,155	(191%)
Financial performance before government funding	**$ 539,112**	$ 545,734	$ (6,622)	(1%)
Government funding				
Parliamentary appropriations for operating expenses	**$ 475,927**	$ 475,945	$ (18)	(0%)
Amortization of deferred government funding related to capital expenditures	**62,965**	73,995	(11,030)	(15%)
Total government funding	**$ 538,892**	$ 549,940	$ (11,048)	(2%)
Financial performance	**$ (220)**	$ 4,206	$ (4,426)	(105%)
Other comprehensive income	**$ 9,562**	$ 4,771	$ 4,791	100%
Total comprehensive income	$ 9,342	$ 8,977	$ 365	4%

[1] The Statement of Comprehensive Income presents operating expenses by program activity, whereas operating expenses above are presented by major expense category as disclosed in note 11 of the audited annual financial statements for the year ended March 31, 2014.

Payments to screening contractors are the most significant expenditure for CATSA, representing 72% of total expenses.

Screening Services and Other Related Costs

Screening services and other related costs consist of: payments to screening contractors; uniforms and other screening related costs; and trace and consumables.

Payments to screening contractors are the most significant expenditure for CATSA, representing 72% of total expenses (excluding depreciation and amortization). These expenses consist of payments to third-party contractors for services performed by screening officers. Key variables impacting these costs include the number of screening hours purchased and billing rates.

The number of screening hours required is typically driven by passenger growth and airport expansions. In addition, evolving threats and security incidents can result in new or modified security regulations, which can lead to changes in CATSA's screening procedures and requirements.

Billing rates are based on an all-inclusive rate paid to screening contractors as set forth under the terms of CATSA's ASSAs. These agreements also include a performance program that remunerates screening contractors for contractual compliance and achievement of specified performance targets.

Screening services and other related costs increased slightly in 2013/14. This is mainly attributable to increases in screening hours purchased at NPS access points and annual contractual billing rates, partially offset by a reduction in screening hours purchased at PBS checkpoints.

During the year, CATSA implemented enhanced NPS activities in support of the strengthened ICAO standard for NPS and security controls. This resulted in an increase in screening hours purchased at identified NPS access points within terminal buildings at Canada's eight busiest airports.

The decrease in screening hours purchased at PBS checkpoints was partially due to the efficiencies generated from the completion of a software upgrade for FBS units. This software eliminated the requirement for a screening officer to view a passenger's detailed image by automatically analyzing the raw data of the passenger's scan. The decrease was also a result of CATSA working within a lower PBS budget for payments to screening contractors compared to the prior year. Combined with annual contractual billing rate increases, this resulted in a notable decline in screening hours purchased, primarily at Canada's eight busiest airports.

Program Support and Corporate Services

Program support and corporate services represent the costs to support the delivery of CATSA's mandated activities and its corporate infrastructure. These costs consist mainly of employee costs, operating leases, professional services, and office and computer expenses.

Program support and corporate services costs decreased by $4,568 (6%) in 2013/14. The decrease was mainly due to lower insurance costs resulting from CATSA securing an indemnification from the Government of Canada for its war risk insurance. The decrease was also attributable to lower costs associated with CATSA's defined benefit pension plans. This is due to decreased net interest expense as a result of the plans' net financial position improving over the year. It is also attributable to employees paying a larger share of the total service costs with the gradual alignment of contribution rates with those of the *Public Service Superannuation Act*.

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 decreased by $11,701 (16%) in 2013/14. The decrease was primarily due to a revision of the estimated useful life of certain HBS equipment during the year. The equipment is being replaced in support of the multi-year life-cycle management of CATSA's HBS equipment. The decrease was also due to certain computers, integrated software, electronic equipment and leasehold improvements becoming fully amortized during the year.

Equipment Operating and Maintenance

Equipment operating and maintenance represent the costs of maintenance performed on CATSA's equipment and systems, as well as the usage and warehousing of spare parts. This expense category also includes costs associated with the training and certification of equipment maintenance technicians for new technology deployed at airports across Canada, and the costs of RAIC purchased.

Equipment operating and maintenance costs increased by $2,894 (7%) in 2013/14. This was primarily the result of annual increases in contract rates for maintenance services, as well as the less favourable U.S.-Canadian exchange rate. The increase was also due to higher spending on operational enhancements, increased spare parts usage associated with performance issues of certain EDS equipment, as well as inventory valuation adjustments.

Total Other Expenses (Income)

Total other expenses (income) consist mainly of loss on property and equipment, write-off of intangible assets, foreign exchange loss, finance income and reversal of decommissioning liabilities.

Total other expenses (income) increased by $3,155 (191%) in 2013/14. The increase was primarily due to the reversal of decommissioning liabilities in 2012/13 which did not occur in the current year.

Government Funding

CATSA is funded by appropriations for both operating and capital expenditures from the federal Consolidated Revenue Fund.

Parliamentary appropriations for operating expenses

Operating expenditures are funded on a near-cash accrual basis. Certain expenditures, including employee benefits, deferred lease incentives, inventories and prepaid expenses, are funded when a cash outflow is required, as opposed to when the expense is recognized under IFRS.

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

Reconciliation of Total Expenses to Operating Appropriations Used			
(Thousands of Canadian dollars)	2013/14	2012/13 (restated)	$ Variance
Total expenses	$ 537,611	$ 547,388	$ (9,777)
Finance cost, foreign exchange loss and finance income	30	(427)	457
Non-cash operating expenses			
Depreciation and amortization	(61,419)	(73,120)	11,701
Employee benefits expense [1]	(453)	2,143	(2,596)
Spare parts expense funded from capital [2]	(75)	(269)	194
Deferred lease incentives [3]	233	195	38
Other	–	35	(35)
Parliamentary appropriations for operating expenses	$ 475,927	$ 475,945	$ (18)
Other items affecting funding			
Net change in prepaids and inventories [4]	(489)	(2,658)	2,169
Total operating appropriations used	$ 475,438	$ 473,287	$ 2,151

[1] Employee benefits are accounted for in the Statement of Comprehensive Income in accordance with IFRS. Based on the TBS'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] Spare parts transferred from capital represent items that were funded from capital appropriations in prior years but were used as spare parts and expensed during the current year, creating a reconciling item.

[3] Deferred lease incentives 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.

[4] Prepaids and inventories are expensed as the benefit is derived from the asset. They are funded by appropriations when purchased, creating a reconciling item.

Parliamentary appropriations for operating expenses for 2013/14 were comparable to those of 2012/13, due to funded expenditures of the current year being comparable to the prior year.

Amortization of deferred government funding related to capital expenditures

Capital expenditures are funded when assets are purchased. The appropriations are recorded as deferred government funding related to capital expenditures and are depreciated on the same basis and over the same period as the related assets.

Amortization of deferred government funding related to capital expenditures decreased by $11,030 (15%) in 2013/14. The decrease resulted from a reduction in depreciation and amortization, as discussed above.

Other Comprehensive Income

Other comprehensive income consists of the net actuarial gain associated with CATSA's defined benefit plans. The variance in other comprehensive income compared to 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 TBS's *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*.

CATSA's capital plan is comprised of EDS and non-EDS capital expenditures.

The following table represents CATSA's liquidity and capital resources:

Liquidity and Capital Resources			
(Thousands of Canadian dollars)	March 31, 2014	March 31, 2013	$ Variance
Cash	$ **6,191**	$ 9,076	$ (2,885)
Trade and other receivables	$ **112,640**	$ 60,645	$ 51,995
Trade and other payables	$ **118,831**	$ 69,721	$ 49,110

Cash as at March 31, 2014 remained comparable to the prior year. Trade and other receivables increased by $51,995 in 2013/14 as a result of more parliamentary appropriations being owed to CATSA at year-end. Trade and other payables increased by $49,110 in 2013/14 as a result of a higher number of outstanding invoices for capital purchases, screening contractors and general suppliers compared to the prior year.

Capital Expenditures

CATSA's capital plan is comprised of EDS and non-EDS capital expenditures.

EDS capital expenditures consist of the acquisition of EDS equipment for PBS, HBS and NPS, and their associated installation and integration costs. Non-EDS capital expenditures consist primarily of the acquisition of equipment to support screening operations, the RAIC system, and CATSA's network infrastructure and corporate management systems.

Property and equipment and intangible assets represent 67% of total assets as at March 31, 2014. In 2013/14, capital expenditures totalled $81,271, consisting of EDS and non-EDS assets as summarized in the table below:

Reconciliation of Capital Acquisitions to Capital Appropriations Used

(Thousands of Canadian dollars)	2013/14	2012/13	$ Variance
EDS	$ 77,812	$ 34,910	$ 42,902
Non-EDS	3,459	4,367	(908)
Total capital asset acquisitions	$ 81,271	$ 39,277	$ 41,994
Proceeds on disposal of property and equipment	(32)	(879)	847
Total capital appropriations used	$ 81,239	$ 38,398	$ 42,841

EDS capital expenditures were comprised primarily of the following projects:

- deployment of the new HBS system at domestic/international and transborder checkpoints at certain airports across Canada;
- deployment of EDS trace equipment as part of life-cycle management and in support of the enhanced NPS program; and
- deployment of LAGs technology at PBS checkpoints.

Non-EDS capital expenditures were comprised primarily of the following projects:

- installation of the BPSS at additional airports;
- deployment and upgrade of CCTV, in addition to the replacement of cameras at various airports; and
- enhancements to CATSA's systems and infrastructure, including enhancing data management capabilities.

Employee Benefits

CATSA maintains two funded pension plans to provide retirement benefits to its employees. The first is a registered pension plan (RPP), which includes two components: a defined benefit component for employees hired before July 1, 2013, and a defined contribution component for employees hired on or after July 1, 2013. The second is a supplementary retirement plan (SRP), which is a defined benefit plan and supplements the RPP. CATSA also sponsors an unfunded post-employment benefits plan, the other defined benefits plan (ODBP), which includes life insurance and eligible health and dental benefits.

Employee Benefits						
(Thousands of Canadian dollars)		March 31, 2014		March 31, 2013		$ Variance
Employee benefits asset	$	8,020	$	611	$	7,409
Employee benefits liability	$	(16,097)	$	(17,797)	$	1,700
Net employee benefits liability	$	(8,077)	$	(17,186)	$	9,109

As at March 31, 2014, the employee benefits asset represents the excess of cumulative funding contributions over cumulative employee benefits cost for CATSA's RPP and SRP. The employee benefits liability consists of the present value of the defined benefit liability of the ODBP.

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, including the inflation rate, number of employees, discount rate, expected average rate of salary increases, expected average remaining service lifetime of active employees, returns on plan asset and contributions. Note 10 of the annual audited financial statements provides further details regarding the underlying assumptions used in determining the net position.

The variance in the net employee benefits liability is primarily due to greater investment returns than expected for the two funded defined benefit pension plans. This is partially offset by the cost of the ODBP, for which benefits accumulate without being funded.

Part 9 Financial Performance Against Corporate Plan

The following section provides information on key variances in CATSA's parliamentary appropriations used in 2013/14 compared to the approved 2013/14 Corporate Plan budget.

Operating Expenditures

Operating Appropriations Used Compared to Corporate Plan

(Thousands of Canadian dollars)	Actual 2013/14	Corporate Plan Budget 2013/14	$ Variance	% Variance
Operating expenses				
Screening services and other related costs	$ **351,401**	$ 352,052	$ (651)	(0%)
Program support and corporate services	**78,203**	80,101	(1,898)	(2%)
Equipment operating and maintenance	**46,588**	44,785	1,803	4%
Other adjustments [1]	**(754)**	–	(754)	–
Total operating appropriations used	$ 475,438	$ 476,938	$ (1,500)	(0%)

[1] Other adjustments include finance income and foreign exchange gain/loss, net change in prepaids and inventories and non-cash operating expenses (excluding depreciation and amortization).

Parliamentary appropriations used for operating expenditures were in line with the approved 2013/14 Corporate Plan operating budget for the year ended March 31, 2014.

Capital Expenditures

Capital Appropriations Used Compared to Corporate Plan						
(Thousands of Canadian dollars)	Actual 2013/14	Corporate Plan Budget 2013/14	Approved Capital Re-profile	Revised Capital Budget 2013/14	$ Variance	% Variance
EDS						
PBS equipment and integration	$ 7,202	$ 5,631	$ –	$ 5,631	$ 1,571	28%
HBS equipment and integration	68,858	83,097	(5,032)	78,065	(9,207)	(12%)
NPS equipment and integration	1,752	2,000	–	2,000	(248)	(12%)
Total EDS	$ 77,812	$ 90,728	$ (5,032)	$ 85,696	$ (7,884)	(9%)
Non-EDS	3,459	10,644	(2,534)	8,110	(4,651)	(57%)
Total capital asset acquisitions	$ 81,271	$101,372	$ (7,566)	$ 93,806	$ (12,535)	(13%)
Proceeds on disposal of property and equipment	(32)	–	–	–	(32)	–
Total capital appropriations used	$ 81,239	$101,372	$ (7,566)	$ 93,806	$ (12,567)	(13%)

Parliamentary appropriations used for capital expenditures in 2013/14 totalled $81,239 compared to the Corporate Plan budget of $101,372. During the year, CATSA received approval to re-profile $7,566 of the 2013/14 capital funds to 2014/15. After taking into consideration the approved capital re-profile, total capital expenditures were $12,567 (13%) lower than the Corporate Plan budget.

EDS

EDS capital expenditures for 2013/14 were $7,884 (9%) lower than the Corporate Plan budget. The capital re-profile was approved for delays in capital spending for certain HBS integration projects resulting from changes to airport project plans that were beyond CATSA's control. The additional underspending beyond the re-profiled amount is due to further delays in HBS integration projects at airports. A re-profile to next fiscal year will be requested for these funds.

This was partly offset by the purchase of additional LAGs equipment to be deployed at PBS checkpoints and the purchase of EDS equipment, initially planned for 2014/15, to support HBS integration projects.

Non-EDS

Non-EDS capital expenditures for 2013/14 were $4,651 (57%) lower than planned primarily due to delays in process improvement projects. A portion of the underspending was re-profiled to the next fiscal year, while other unspent capital funds were reallocated to EDS capital initiatives during the fiscal year.

Financial Statements of

Canadian Air Transport Security Authority

Year ended March 31, 2014

Management's Responsibility Statement

Year ended March 31, 2014

The financial statements contained in this annual report have been prepared by management in accordance with IFRS. 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's Internal Auditor has the responsibility for assessing its networks of risk management, control and governance processes.

The Board of Directors is responsible for overseeing our business and activities. In particular, the Board provides oversight to ensure that management fulfils 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, the Internal Auditor 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

Angus Watt
President and Chief Executive Officer

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

June 12, 2014

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of the Canadian Air Transport Security Authority, which comprise the statement of financial position as at March 31, 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Air Transport Security Authority as at March 31, 2014, and its financial performance and its cash flows for the year then ended 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 change in the method of accounting for employee benefits as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

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

Maurice Laplante

Maurice Laplante, CPA, CA
Assistant Auditor General
for the Auditor General of Canada

June 12, 2014
Ottawa, Canada

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

Statement of Financial Position

(In thousands of Canadian dollars)

Assets	As at March 31	
	2014	**2013**
Current assets		
Cash	$ 6,191	$ 9,076
Trade and other receivables *(note 5)*	112,640	60,645
Inventories *(note 6)*	17,065	17,765
Prepaid expenses	2,888	2,677
	138,784	90,163
Non-current assets		
Employee benefits *(note 10)*	8,020	611
Property and equipment *(note 7)*	288,040	266,325
Intangible assets *(note 8)*	4,757	8,198
	300,817	275,134
	$ 439,601	$ 365,297
Liabilities and Equity		
Current liabilities		
Trade and other payables	$ 118,831	$ 69,721
Deferred government funding related to operating expenses *(note 9)*	19,953	20,442
	138,784	90,163
Non-current liabilities		
Deferred lease incentives	1,053	1,286
Deferred government funding related to capital expenditures *(note 9)*	292,797	274,523
Employee benefits *(note 10)*	16,097	17,797
	309,947	293,606
Equity		
Accumulated deficit	(9,130)	(18,472)
	$ 439,601	$ 365,297

Commitments *(note 13)* and contingent liabilities *(note 17)*
The accompanying notes are an integral part of these financial statements.

Approved by the Board and authorized for issue on June 12, 2014:

Lloyd A. McCoomb, PhD, P.Eng., ICD.D
Chairperson

Angus Watt
President and Chief Executive Officer

Statement of Comprehensive Income

(In thousands of Canadian dollars)

	Years ended March 31	
	2014	**2013** (restated - note 3(p))
Expenses		
Pre-Board Screening	$ 307,998	$ 329,033
Hold Baggage Screening	138,448	143,349
Corporate services	48,989	53,334
Non-Passenger Screening	38,229	17,706
Restricted Area Identity Card Program	3,947	3,966
Total expenses *(note 11)*	537,611	547,388
Other expenses (income)		
Loss on property and equipment	950	618
Write-off of intangible assets *(note 8)*	521	7
Foreign exchange loss	516	57
Finance cost	3	30
Finance income	(489)	(484)
Reversal of decommissioning liabilities	–	(1,876)
Gain on settlement of decommissioning liabilities	–	(6)
Total other expenses (income)	1,501	(1,654)
Financial performance before government funding	539,112	545,734
Government funding		
Parliamentary appropriations for operating expenses *(note 9)*	475,927	475,945
Amortization of deferred government funding related to capital expenditures *(note 9)*	62,965	73,995
Total government funding	538,892	549,940
Financial performance	(220)	4,206
Other comprehensive income		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans *(note 10)*	9,562	4,771
Total comprehensive income	$ 9,342	$ 8,977

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

Statement of Changes in Equity

(In thousands of Canadian dollars)

		Accumulated deficit (restated - note 3(p))
Balance, April 1, 2012	$	(27,449)
Financial performance		4,206
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans *(note 10)*		4,771
Balance, March 31, 2013	$	(18,472)

		Accumulated deficit
Balance, April 1, 2013	$	(18,472)
Financial performance		(220)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans *(note 10)*		9,562
Balance, March 31, 2014	$	(9,130)

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

Statement of Cash Flows

(In thousands of Canadian dollars)

	Years ended March 31	
	2014	**2013** (restated - note 3(p))
Cash flows provided by (used in)		
Operating activities		
Financial performance	$ (220)	$ 4,206
Items not involving cash		
Depreciation of property and equipment *(note 11)*	56,774	67,436
Amortization of intangible assets *(note 11)*	4,645	5,684
Loss on property and equipment	950	618
Write-off of intangible assets *(note 8)*	521	7
Increase (decrease) in net employee benefits liability *(note 16)*	453	(2,143)
Other non-cash transaction	25	–
Amortization of deferred government funding related to capital expenditures *(note 9)*	(62,965)	(73,995)
Decrease in deferred lease incentives	(233)	(195)
Unwinding of discount on decommissioning liabilities	–	30
Reversal of decommissioning liabilities	–	(1,876)
Gain on settlement of decommissioning liabilities	–	(6)
Net change in non-cash working capital balances *(note 16)*	(7,542)	4,058
	(7,592)	3,824
Investing activities		
Parliamentary appropriations received for capital funding	49,398	39,137
Purchase of property and equipment	(42,966)	(38,005)
Purchase of intangible assets	(1,725)	(1,787)
	4,707	(655)
Increase (decrease) in cash	(2,885)	3,169
Cash, beginning of year	9,076	5,907
Cash, end of year	$ 6,191	$ 9,076

Supplementary cash flow information *(note 16)*

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

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

1. Authority, mandate and programs

CATSA was established pursuant to the *CATSA Act* 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 provide effective and efficient screening of persons who access aircraft or restricted areas through screening points, the property in their possession or control and the belongings or baggage that they give to an air carrier for transport. CATSA is also responsible for ensuring consistency in the delivery of screening across Canada and for air transport security functions that the Minister of Transport may assign it, subject to any terms and conditions that the Minister may establish. In carrying out its responsibilities, CATSA must do so in the public interest, having due regard to the interest of the travelling public.

To achieve this, CATSA conducts screening in the following four areas:

1. PBS – the screening of passengers, their carry-on baggage and their personal belongings;
2. HBS – the screening of checked baggage;
3. NPS – the screening of non-passengers on a random basis; and
4. RAIC Program – the administration of access control to airport restricted areas through biometric identifiers.

In addition to its mandated activities, CATSA has an agreement with Transport Canada to conduct screening of cargo at smaller airports. This program was designed to screen limited amounts of cargo during off-peak periods and involves using existing technology and resources.

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

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 IFRS as adopted by the Accounting Standards Board of Canada.

3. Summary of significant accounting policies

(a) Basis of measurement

These financial statements were prepared under the historical cost convention, except as permitted by IFRS and as indicated within this note. Historical cost is generally based on the fair value of the consideration given up in exchange for goods and services at the transaction date.

(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)(e), note 7 and note 8 – 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(i) and note 10 – Employee benefits

  Key estimates used for employee benefits include the discount rate, inflation rate, long-term rate of compensation increase and assumed medical cost trend rates.

Underlying assumptions and estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

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

- note 3(e) and note 8 – Intangible assets

  Judgments are required in determining when internally generated intangible assets enter the development phase.

- note 3(j) and note 17 – Provisions and contingent liabilities

  Judgments are required in determining the existence of a legal or constructive obligation and in assessing the probability of 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

(In thousands of Canadian dollars)
Year ended March 31, 2014

(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.

Work-in-progress includes costs related 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.

The carrying amount of an item of property and equipment is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of an item of property and equipment are determined by comparing proceeds, if any, with the carrying amount and are recognized in financial performance.

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

(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.

(iii) Depreciation

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

Asset class	Useful life
PBS equipment	3-10 years
HBS equipment	3-19 years
NPS equipment	3-10 years
RAIC equipment	5 years
Computers, integrated software and electronic equipment	3-5 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.

(e) 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.

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

(f) 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. An impairment loss is recognized when an asset's carrying amount exceeds its recoverable amount. When there is a reversal of impairment loss, the carrying amount of the asset is increased to the lower of the recoverable amount and the carrying amount that the asset would have had if the previous impairment loss had not been recognized. In both cases, the adjustment to the carrying value of the asset is recorded in financial performance.

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. For certain assets, their fair value is determined using the current replacement cost, while for other assets, their fair value cannot be determined as there are no comparable assets available on the market for which a replacement cost can be established.

In situations where the recoverable amount of an asset cannot be determined, the estimated useful lives of 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.

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

(g) 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 on a straight-line basis over the term of the lease.

(h) Financial instruments

(i) Non-derivative financial assets and liabilities

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.

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 non-derivative 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

(In thousands of Canadian dollars)
Year ended March 31, 2014

(i) Employee benefits

(i) Post-employment benefit plans – defined benefit

The employee benefits asset and/or liability presented in the Statement of Financial Position represents the actual surplus or deficit of each of CATSA's defined benefit pension plans and its other defined benefits plan. The surplus or deficit is determined 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, using a discount rate established at the end of the reporting period. The obligation is recognized over the period of employee service determined actuarially using the projected unit credit method. To the extent applicable, the fair value of any plan assets is deducted from the present value of the future benefit. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Defined benefit costs are categorized as follows:

- service costs;
- net interest on the net defined benefit asset or liability; and
- remeasurements.

Service costs are determined separately for each plan using the projected unit credit method, with actuarial valuations for accounting purposes being carried out at the end of each annual reporting period. Current service cost is recognized as employee costs in determining financial performance. Past service cost is recognized as an employee cost in financial performance in the period of plan amendment or when the related restructuring costs or termination benefits are recognized,

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

whichever is earlier. Administration costs paid from the plan assets during the period, excluding the costs of managing plan assets, are included in service costs. The cost of managing plan assets is recorded against the actual return on plan assets.

Net interest is calculated by applying the discount rate used to discount the post-employment benefit obligation to the net defined benefit asset or liability taking into account any changes in the net defined benefit asset or liability during the period as a result of contribution and benefit payments. The discount rate is determined by reference to the yield, at the beginning of the period, on high quality corporate bonds that:

a) have an overall duration equal to the respective duration of the defined benefit obligations; and

b) are denominated in the same currency in which the benefits are expected to be paid.

Net interest is recognized as employee costs in determining financial performance.

Remeasurement of defined benefit plans consists of actuarial gains and losses, the return on plan assets (excluding interest) and the effect of changes in the asset ceiling (if applicable). Remeasurement of defined benefit plans is recognized in other comprehensive income or loss and is included immediately in accumulated deficit without reclassification to financial performance in a subsequent period.

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

(ii) Post-employment benefit plan – defined contribution

Employer contributions to the defined contribution pension plan are recognized as an employee cost in financial performance when employees have rendered service entitling them to the contributions.

(iii) Termination benefits

Termination benefits result from either CATSA's decision to terminate employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment. CATSA recognizes termination benefits at the earliest of when the entity can no longer withdraw the offer of those benefits or when restructuring costs are accrued if termination benefits are part of a restructuring plan. If benefits are payable more than 12 months after the reporting period, the liability is determined by discounting the obligation to its present value.

(iv) 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.

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

(j) Provisions and contingent liabilities

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 resources embodying economic benefits will be required to settle the obligation. Unless the possibility of an outflow of resources embodying economic benefits is remote, a contingent liability is disclosed when:

- a possible obligation has arisen from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of CATSA; or
- a present obligation has arisen from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

(i) 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.

(ii) Decommissioning costs

CATSA has future costs associated with the disposal of certain screening equipment in an environmentally responsible manner, and the restoration of leased premises to an agreed upon standard at the end of the lease. To the extent that it is probable that these costs result in an outflow of economic benefits, CATSA recognizes a provision for decommissioning liabilities, and the costs are capitalized as part of the carrying amount of the related asset and depreciated over the asset's estimated useful life.

(k) Government funding

CATSA's primary source of funding is parliamentary appropriations received from the Government of Canada. Parliamentary appropriations are accounted for as Government of Canada grants and are recognized in financial performance on a systematic basis over the periods in which CATSA recognizes as expenses the related costs for which the grants are intended to compensate. Parliamentary appropriations are not recognized in financial performance until there is reasonable assurance that CATSA will comply with the conditions attached to them and that the grants will be received.

Appropriations related to expenses of future periods are recorded as deferred government funding related to operating expenses and are recognized in financial performance in the period in which the related expenses are incurred. Appropriations used for the purchase of property and equipment and intangible assets are recorded as deferred government funding related to capital expenditures and are amortized on the same basis as the related assets.

Upon the disposal 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 or re-profiled to future years.

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

(l) 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.

(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 interest expense and is recognized in financial performance in the year it is incurred.

(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. Non-monetary assets and liabilities are translated using exchange rates prevailing at the dates the assets are acquired or the obligations are incurred.

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

(p) Changes in accounting policies

The following new accounting standards and amendments were adopted effective April 1, 2013 for the current reporting period:

- CATSA adopted the amendments to *IAS 1*, *Presentation of Financial Statements*. The standard was amended to require items in other comprehensive income or loss to be classified by nature, and grouped into those that will not be subsequently reclassified to financial performance, and those that will be subsequently reclassified to financial performance when specific conditions are met. Under the amended standard, none of the components of CATSA's other comprehensive income or loss will be reclassified to financial performance and, accordingly, the only impact is the identification of the remeasurement of defined benefit plans as an item that will not be subsequently reclassified to financial performance.
- CATSA adopted the amendments to *IAS 19*, *Employee Benefits*. The standard 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 that interest income on plan assets be calculated by using the discount rate used to discount the defined benefit obligations, as well as to improve disclosure about the risks arising from defined benefit plans.

  The amendment that had the most significant impact on CATSA's financial statements was the use of the discount rate to calculate the interest income on the plan assets, as opposed to the expected long-term rate of return under the previous standard. The expected long-term rate of return on plan assets assumption is no longer used for defined benefit plan measurement purposes.

  The amendments were applied retrospectively with the exception of comparative information for disclosures related to sensitivity of the defined benefit obligation, as permitted by the standard. The impact of the amendment for the year ended March 31, 2013 was as follows:

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

Statement of Comprehensive Income	2013		
	Prior to IAS 19 amendment	Effects of IAS 19 amendment	Adjusted balance
Expenses			
PBS	$ 328,448	$ 585	$ 329,033
HBS	143,176	173	143,349
Corporate services	52,712	622	53,334
NPS	17,670	36	17,706
RAIC Program	3,955	11	3,966
Financial performance before government funding	544,307	1,427	545,734
Financial performance	5,633	(1,427)	4,206
Other comprehensive income	3,344	1,427	4,771
Total comprehensive income	$ 8,977	$ –	$ 8,977

Statement of Cash Flows	2013		
	Prior to IAS 19 amendment	Effects of IAS 19 amendment	Adjusted balance
Operating activities			
Financial performance	$ 5,633	$ (1,427)	$ 4,206
Decrease in net employee benefits liability	(3,570)	1,427	(2,143)
Increase in cash	$ 3,169	$ –	$ 3,169

There was no impact on the Statement of Financial Position.

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

- CATSA adopted the amendments to *IFRS 7, Financial instruments: disclosures*. The standard was amended to include specific disclosure requirements for financial assets and financial liabilities that are offset and presented on a net basis in the Statement of Financial Position. When applicable, the amendment results in enhanced disclosure of the offsetting assets and liabilities. The amendments were applied retrospectively, and did not have a significant impact on CATSA.
- CATSA adopted *IFRS 13, Fair value measurement*. The standard 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. Upon the prospective adoption of the standard, the fair value basis of CATSA assets and liabilities were not affected. However, note 3(f) was modified to explain the impact of this standard on impairment.

(q) Future changes in accounting policies

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 following applicable standards and amendments have been issued but are not yet effective:

- *IAS 19, Employee benefits*, was amended to clarify the application of the standard to plans that require employees or third parties to contribute towards the cost of benefits. The impact of the adoption of the standard has not yet been determined. The amendment is effective for annual periods beginning on or after July 1, 2014, and CATSA intends to adopt the amendment effective April 1, 2015;

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

- *IAS 32*, *Financial instruments: presentation*, was amended to provide further guidance to the criteria for offsetting financial assets and financial liabilities and presenting the net amount in the Statement of Financial Position. Upon adoption of the standard, there is no expected change in presentation of CATSA's offsetting assets and liabilities. The amendment is effective for annual periods beginning on or after January 1, 2014, and CATSA intends to adopt the amendment effective April 1, 2014;
- *IAS 36*, *Impairment of assets*, was amended to change the disclosure requirement for recoverable amount under certain circumstances, and to require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed. CATSA does not expect any changes in disclosure as a result of applying this amendment. The amendment is effective for annual periods beginning on or after January 1, 2014, and CATSA intends to adopt the amendment effective April 1, 2014; and
- *IFRS 9*, *Financial instruments*, was issued to deal with classification and measurement requirements for financial assets and financial liabilities. With respect to financial assets, initial measurement will be at fair value, and for financial assets not classified at fair value through profit or loss, certain transaction costs will be included. Subsequent measurement of financial assets will be at amortized cost or fair value. With respect to financial liabilities, the requirements under this standard are mostly unchanged from *IAS 39*, *Financial instruments: recognition and measurement*, which *IFRS 9* will replace. The impact of the adoption of the standard has not yet been determined. The effective date of the standard has not yet been established, and CATSA does not intend to early adopt the standard.

(In thousands of Canadian dollars)

4. Financial instruments

As part of its operations, CATSA enters into transactions that have exposures to financial risks 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.

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

	USD	CAD
March 31, 2014	$ 25,307	$ 27,975
March 31, 2013	4,251	4,403

Assuming all other variables remain constant, a 5% depreciation or appreciation of the USD against the CAD would result in an increase/decrease in financial performance of $1,399 (2013 – $216).

Although management monitors exposure to fluctuations in foreign exchange rates, it does not currently employ external hedging strategies to offset the impact of these fluctuations.

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

(b) Liquidity risk

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

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

	Less than 3 months	3 to less than 6 months	6 months to 1 year	Total
March 31, 2014	$ 117,203	$ 646	$ 982	$ 118,831
March 31, 2013	68,554	760	407	69,721

CATSA's strategy for managing liquidity risk remains unchanged from the prior year.

(In thousands of Canadian dollars)

5. Trade and other receivables

Trade and other receivables are comprised of:

	March 31, 2014	March 31, 2013
Parliamentary appropriations	$ 96,677	$ 45,685
GST and HST recoverable	14,146	13,329
PST recoverable	1,741	1,496
Other	76	135
	$ 112,640	$ 60,645

6. Inventories

Inventories are comprised of:

	March 31, 2014	March 31, 2013
Spare parts	$ 15,381	$ 16,881
Uniforms	1,460	587
RAIC	224	297
	$ 17,065	$ 17,765

During the year, inventories totalling $5,720 (2013 – $4,898) were charged to expenses. This includes $1,308 (2013 – $63) resulting from a write-down of inventories. It also includes an amount of $816 (2013 – $875) resulting from a reversal of previous write-downs due to a change related to the expected use of some spare parts previously identified as obsolete, and an increase in the replacement cost of certain spare parts.

Notes to Financial Statements

(In thousands of Canadian dollars) Year ended March 31, 2014

7. Property and equipment

A reconciliation of property and equipment is as follows:

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equipment	Leasehold improvements	Work-in-progress	Total
Cost									
Balance, April 1, 2012	$ 127,137	$ 658,389	$ 5,429	$ 6,511	$ 25,363	$ 637	$ 12,779	$ 10,401	$ 846,646
Additions	5,437	4,577	–	543	1,318	–	422	25,204	37,501
Disposals	(4,307)	(5,413)	(134)	(11)	(872)	(202)	–	(17)	(10,956)
Write-offs	(6,583)	(1,413)	(83)	(1,490)	(2,691)	–	(2,753)	(61)	(15,074)
Reclassifications	1,414	639	–	–	998	–	–	(3,051)	–
Revisions in decommissioning liabilities	(891)	(537)	(45)	–	–	–	(212)	(29)	(1,714)
Balance, March 31, 2013	$ 122,207	$ 656,242	$ 5,167	$ 5,553	$ 24,116	$ 435	$ 10,236	$ 32,447	$ 856,403
Balance, April 1, 2013	$ 122,207	$ 656,242	$ 5,167	$ 5,553	$ 24,116	$ 435	$ 10,236	$ 32,447	$ 856,403
Additions	2,575	7,537	35	–	1,298	–	–	68,101	79,546
Disposals	(3,138)	(34,245)	(15)	(46)	(23)	–	–	–	(37,467)
Write-offs	(592)	(261)	(4)	(969)	(2,501)	(340)	(117)	(68)	(4,852)
Reclassifications	364	24,218	–	–	554	–	–	(25,136)	–
Balance, March 31, 2014	$ 121,416	$ 653,491	$ 5,183	$ 4,538	$ 23,444	$ 95	$ 10,119	$ 75,344	$ 893,630
Accumulated depreciation									
Balance, April 1, 2012	$ 60,276	$ 456,553	$ 2,307	$ 3,885	$ 15,250	$ 557	$ 9,656	$ –	$ 548,484
Depreciation	8,778	48,750	396	959	6,712	80	1,761	–	67,436
Disposals	(4,153)	(5,216)	(134)	(8)	(720)	(202)	–	–	(10,433)
Write-offs	(6,528)	(878)	(83)	(1,450)	(2,679)	–	(2,753)	–	(14,371)
Reclassifications	(8)	176	–	–	45	–	–	–	213
Revisions in decommissioning liabilities	(452)	(590)	(18)	–	–	–	(191)	–	(1,251)
Balance, March 31, 2013	$ 57,913	$ 498,795	$ 2,468	$ 3,386	$ 18,608	$ 435	$ 8,473	$ –	$ 590,078
Balance, April 1, 2013	$ 57,913	$ 498,795	$ 2,468	$ 3,386	$ 18,608	$ 435	$ 8,473	$ –	$ 590,078
Depreciation	8,805	42,181	392	809	3,882	–	705	–	56,774
Disposals	(2,919)	(33,765)	(15)	(38)	(23)	–	–	–	(36,760)
Write-offs	(446)	(217)	(4)	(887)	(2,491)	(340)	(117)	–	(4,502)
Balance, March 31, 2014	$ 63,353	$ 506,994	$ 2,841	$ 3,270	$ 19,976	$ 95	$ 9,061	$ –	$ 605,590
Carrying amounts									
As at March 31, 2013	$ 64,294	$ 157,447	$ 2,699	$ 2,167	$ 5,508	$ –	$ 1,763	$ 32,447	$ 266,325
As at March 31, 2014	$ 58,063	$ 146,497	$ 2,342	$ 1,268	$ 3,468	$ –	$ 1,058	$ 75,344	$ 288,040

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

During the year, CATSA acquired $79,546 (2013 – $37,501) of property and equipment.

In 2011/12, CATSA began a ten year recapitalization plan related to the conversion of its HBS system at all major airports in Canada. As a result, the useful lives of certain HBS equipment are anticipated to be different from their original estimate. The useful lives may be reduced for assets that will be disposed of as a result of the conversion or, alternatively, may be extended for assets that will continue to be used subsequent to the conversion. Other than indicated below, the exact remaining useful lives of these assets are not known at this time. This is due to a number of factors, such as the need for further detailed planning and negotiations with airport authorities, which could result in changes in the timing and scope of the conversions. As the uncertainties around these factors become known, CATSA will review the remaining useful lives of the affected assets, and any changes in estimates will be accounted for on a prospective basis.

During the year, the estimated useful lives of certain HBS assets related to the recapitalization plan noted above were adjusted to reflect their expected decommissioning dates. The change in accounting estimate was accounted for on a prospective basis and decreased the current year depreciation expense by $2,022. The decrease in depreciation expense was completely offset by a decrease in the amortization of deferred government funding related to capital expenditures. From 2014/15 to 2024/25, the depreciation expense and amortization of deferred government funding related to capital expenditures are expected to increase by a total of $2,022.

Notes to Financial Statements

(In thousands of Canadian dollars)
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During the prior year, changes in estimated useful lives related to the recapitalization plan increased the prior year depreciation expense by $7,862. The increase in depreciation expense was completely offset by an increase in the amortization of deferred government funding related to capital expenditures. From 2013/14 to 2024/25, the depreciation expense and amortization of deferred government funding related to capital expenditures are expected to decrease by a total of $7,862.

As at March 31, 2014, the estimated useful life of certain computers, integrated software and electronic equipment was revised from three to five years to better reflect the anticipated life-cycle management of these assets. The change in accounting estimate will be accounted for on a prospective basis starting April 1, 2014, and will decrease the 2014/15 depreciation expense by $742. This decrease will be completely offset by a decrease in the amortization of deferred government funding related to capital expenditures. In 2015/16 to 2018/19, the depreciation expense and amortization of deferred funding related to capital expenditures is expected to increase by a total of $742.

As at March 31, 2014, the estimated useful life of the HBS equipment asset class is 3-19 years (2013 - 7-10 years), as a result of changes related to the recapitalization plan. In addition, the estimated useful life of the NPS equipment asset class is 3-10 years (2013 - 7-10 years), as a result of purchases made during the year. Furthermore, the estimated useful life of the RAIC equipment asset class is five years (2013 - 3-7 years), as a result of write-offs of certain equipment during the year.

As at March 31, 2014, CATSA has commitments related to the purchase of screening equipment and other capital projects totalling $172,763 (2013 – $76,822).

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

8. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, April 1, 2012	$ 5,177	$ 19,680	$ 722	$ 25,579
Additions	231	1,319	237	1,787
Write-offs	(1,598)	(2,063)	–	(3,661)
Reclassifications	475	183	(658)	–
Balance, March 31, 2013	$ 4,285	$ 19,119	$ 301	$ 23,705
Balance, April 1, 2013	$ 4,285	$ 19,119	$ 301	$ 23,705
Additions	856	805	64	1,725
Write-offs	(1,042)	(1,950)	–	(2,992)
Reclassifications	89	212	(301)	–
Balance, March 31, 2014	$ 4,188	$ 18,186	$ 64	$ 22,438
Accumulated amortization				
Balance, April 1, 2012	$ 4,113	$ 9,577	$ –	$ 13,690
Amortization	818	4,866	–	5,684
Write-offs	(1,598)	(2,056)	–	(3,654)
Reclassifications	(213)	–	–	(213)
Balance, March 31, 2013	$ 3,120	$ 12,387	$ –	$ 15,507
Balance, April 1, 2013	$ 3,120	$ 12,387	$ –	$ 15,507
Amortization	716	3,929	–	4,645
Write-offs	(964)	(1,507)	–	(2,471)
Balance, March 31, 2014	$ 2,872	$ 14,809	$ –	$ 17,681
Carrying amounts				
As at March 31, 2013	$ 1,165	$ 6,732	$ 301	$ 8,198
As at March 31, 2014	$ 1,316	$ 3,377	$ 64	$ 4,757

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(In thousands of Canadian dollars)
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During the year, management determined that certain development costs related to internally generated software no longer provided future economic benefit. As a result, intangible assets totalling $521 (2013 – $7) were expensed in the Statement of Comprehensive Income.

During the year, research and development costs of $Nil (2013 – $31) were expensed.

As at March 31, 2014, CATSA has commitments related to the purchase of computer software licences and other software development projects totalling $1,981 (2013 – $135).

9. Deferred government funding

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

	March 31, 2014	March 31, 2013
Deferred government funding related to operating expenses		
Balance, beginning of year	$ 20,442	$ 23,100
Parliamentary appropriations used to finance operating expenses	475,438	473,287
Parliamentary appropriations recognized as government funding for operating expenses	(475,927)	(475,945)
Balance, end of year	$ 19,953	$ 20,442
Deferred government funding related to capital expenditures		
Balance, beginning of year	$ 274,523	$ 310,120
Parliamentary appropriations used to finance capital expenditures	81,239	38,398
Amortization of deferred government funding related to capital expenditures	(62,965)	(73,995)
Balance, end of year	$ 292,797	$ 274,523
Total deferred government funding, end of year	$ 312,750	$ 294,965

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

10. Employee benefits

(a) Post-employment benefit plans overview

CATSA maintains three post-employment benefit plans:

- A registered pension plan (RPP), which is registered with the Office of the Superintendent of Financial Institutions Canada and with the Canada Revenue Agency and contains both a defined benefit and a defined contribution component;
- A supplementary retirement plan (SRP), which supplements the defined benefit component of the RPP for benefits limited by the Income Tax Act and is funded by a retirement compensation arrangement regulated by the Canada Revenue Agency; and
- An other defined benefits plan (ODBP), which includes life insurance and eligible health and dental benefits.

CATSA's defined benefit pension plans consist of the defined benefit component of the RPP and the SRP. Pension benefits are based on the average of the best five consecutive years of pensionable salary and are indexed to the rate of inflation. CATSA's defined contribution pension plan consists of the defined contribution component of the RPP. All employees are eligible for the ODBP.

The defined benefit pension plans' funds are held in external trusts that are legally separate from CATSA. Benefits are paid directly from the trusts. Both employer and employee contributions to the defined benefit pension plans are made in accordance with the provisions of the plans. In addition, contributions are determined by actuarial valuations in accordance with applicable legislation.

Effective July 1, 2013, the defined benefit pension plans were closed to new entrants. All employees hired after June 30, 2013 are provided pension benefits through a defined contribution pension plan. Enrollment in this plan is mandatory for full-time indeterminate employees, as well as part-time indeterminate employees working an average of more than 20 hours per week. Under this plan, CATSA and its employees are required to contribute a specified percentage of salaries to fund the benefits, with optional contributions for employees matched at various levels by the employer based on years of service. CATSA's financial obligation is limited to matching employee contributions, as outlined in the provisions of the plan.

The Board of Directors is responsible for the oversight of the post-employment benefit plans, including significant review of investment strategies and funding, the review and approval of documents and reports required by law, and for setting the policies of the plans. The Pension Committee, a sub-committee of the Board, assists the Board in discharging its responsibilities. This Committee is mandated to oversee the management and administration of the plans, including oversight of the annual audit and financial statements.

(b) Post-employment benefit plans' risks

The defined benefit plans expose CATSA to actuarial risks such as inflation risk, interest risk, investment risk, longevity risk, medical claim rates risk and salary risk. In addition, the closed nature of the defined benefit pension plans will create a rise in future service costs as the plan members age. Current cost sharing provisions could also increase employee contributions to a level beyond what is permitted by the *Income Tax Act*. Should this occur, regulatory approval will be requested.

(c) Employee benefits assets and liabilities

The following provides a reconciliation between the defined benefit plans' assets, the defined benefit plans' liabilities and the surplus or deficit status of the defined benefit plans, to the net employee benefits asset or liability presented in the Statement of Financial Position:

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

	RPP 2014	RPP 2013 (restated - note 3(p))	SRP 2014	SRP 2013 (restated - note 3(p))	ODBP 2014	ODBP 2013
Fair value of plan assets						
Balance, beginning of year	$ 94,190	$ 73,636	$ 4,425	$ 3,815	$ –	$ –
Included in financial performance						
Interest income	4,412	3,501	205	179	–	–
Administration costs	(300)	(300)	(20)	(20)	–	–
Included in other comprehensive income						
Remeasurement gain						
Return on assets excluding interest income	9,443	4,685	309	47	–	–
Other						
CATSA contributions	11,302	14,679	318	465	134	125
Plan participant contributions	2,749	2,370	3	1	–	–
Benefit payments and transfers	(2,768)	(4,381)	(76)	(62)	(134)	(125)
Balance, end of year	**$ 119,028**	**$ 94,190**	**$ 5,164**	**$ 4,425**	**$ –**	**$ –**
Present value of defined benefit liabilities						
Balance, beginning of year	$ 97,529	$ 85,671	$ 3,814	$ 3,608	$ 14,458	$ 12,272
Included in financial performance						
Current service cost	8,805	9,463	223	192	1,761	1,685
Interest expense	4,808	4,350	180	170	727	626
Included in other comprehensive income						
Remeasurement loss (gain)						
Actuarial losses arising from changes in demographic assumptions	6,249	31	229	–	1,789	–
Actuarial gains arising from changes in financial assumptions	(6,410)	–	(177)	–	(1,149)	–
Actuarial losses (gains) arising from experience adjustments	1,455	25	(441)	(95)	(1,355)	–
Other						
Plan participant contributions	2,749	2,370	3	1	–	–
Benefit payments and transfers	(2,768)	(4,381)	(76)	(62)	(134)	(125)
Balance, end of year	**$ 112,417**	**$ 97,529**	**$ 3,755**	**$ 3,814**	**$ 16,097**	**$ 14,458**
Net employee benefits asset (liability)	$ 6,611	$ (3,339)	$ 1,409	$ 611	$ (16,097)	$ (14,458)

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

	March 31, 2014	March 31, 2013
Employee benefits asset, end of year		
RPP	$ 6,611	$ –
SRP	1,409	611
	8,020	**611**
Employee benefits liability, end of year		
RPP	–	(3,339)
ODBP	(16,097)	(14,458)
	(16,097)	**(17,797)**
Employee benefits - net liability, end of year	$ (8,077)	$ (17,186)

(d) Employee benefits costs

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

	RPP 2014	RPP 2013 (restated - note 3(p))	SRP 2014	SRP 2013 (restated - note 3(p))	ODBP 2014	ODBP 2013
Defined benefit cost recognized in financial performance						
Service cost	$ 9,105	$ 9,763	$ 243	$ 212	$ 1,761	$ 1,685
Net interest on the net defined benefit asset or liability	396	849	(25)	(9)	727	626
Defined benefit cost, through financial performance	$ 9,501	$ 10,612	$ 218	$ 203	$ 2,488	$ 2,311
Remeasurement of defined benefit plans recognized in other comprehensive income						
Return on plan assets excluding interest income	$ 9,443	$ 4,685	$ 309	$ 47	$ –	$ –
Actuarial gains (losses)	(1,294)	(56)	389	95	715	–
Remeasurement of defined benefit plans, through other comprehensive income	$ 8,149	$ 4,629	$ 698	$ 142	$ 715	$ –

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

Total remeasurement of defined benefit plans recognized in other comprehensive income for the year ended March 31, 2014 is $9,562 (2013 – $4,771). Net defined benefit costs is recognized as employee costs in note 11, and allocated among the program expenses in the Statement of Comprehensive Income.

(e) Composition of plan assets

Based on the fair value at March 31, defined benefit plans' assets are comprised of:

	March 31, 2014	March 31, 2013
Investment Funds		
Equity Securities		
Canadian Equity Fund	$ 36,593	$ 33,721
U.S. Equity Fund	1,002	14,882
International Equity Fund	36,664	14,872
Debt Securities		
Canadian Bond Fund	41,660	32,967
Other	5,952	–
Canada Revenue Agency refundable tax account	2,321	2,173
Total plan assets, end of year	$ 124,192	$ 98,615

The fair value of all equity and debt securities is determined based on quoted market prices in active markets. The assets held by the Canada Revenue Agency in the refundable tax account are held in non-interest bearing accounts. The fair value is based on the amounts transferred into the refundable tax account held by the Canada Revenue Agency.

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

On a regular basis, an asset-liability matching study is performed, which analyzes the timing and magnitude of future cash outflows of the RPP. It suggests an optimal investment structure to maximize investment returns while minimizing risk associated with the fluctuation of the benefit obligation due to variations in interest rates. As the obligation has similar characteristics to debt securities, the de-risking of the funded position is achieved via investments in debt securities while other types of investments are selected to increase the returns of the plan. Given the characteristics of the RPP, the optimal investment structure was to have 35% of plan assets invested in debt securities that have similar characteristics to the obligation. This reduces the risk associated with the volatility of the funded position while not impairing future investment returns.

(f) Actuarial assumptions and sensitivity analysis

The actuarial assumptions used to determine the present value of the obligations are management's best estimates. They are established based on market expectations at the end of the reporting period, for the period over which the obligations are to be settled. The significant weighted average assumptions used to determine CATSA's liabilities are as follows:

	RPP		SRP		ODBP	
	2014	2013	2014	2013	2014	2013
Present value of defined benefit liability						
Discount rate	4.75%	4.50%	4.75%	4.50%	4.75%	4.50%
Long-term rate of compensation increase	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
Inflation	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
Mortality table	CPM-B	UP94	CPM-B	UP94	CPM-B	UP94
Benefit costs						
Discount rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Inflation	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
Assumed medical cost trend rates						
Initial medical cost trend rate					6.50%	7.20%
Ultimate medical cost trend rate					4.30%	4.60%
Year ultimate reached					2029	2021

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Year ended March 31, 2014

The sensitivity analysis below was determined based on changes to the respective assumptions occurring at March 31, 2014, while holding all other assumptions constant:

	Change	Defined benefit liability	
		Increase	Decrease
Discount rate	1%	$ (26,975)	$ 37,075
Long-term rate of compensation increase	1%	10,221	(8,706)
Inflation	1%	19,619	(15,654)
Life expectancy	1 year	3,908	(3,864)
Assumed medical cost trend rate	1%	4,264	(3,112)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another, as some of the assumptions may be correlated.

(g) Future expected contributions

Under current legislation and regulations, the funding valuation of CATSA's RPP is required to be filed annually, unless the ratio of the solvency plan assets to solvency liabilities is 1.2 or greater, in which case it would be required at least every three years. In the event of a solvency or going-concern deficit, regulatory authorities require special contributions to be made over specified future periods.

There is no current legislative or regulatory requirement to file a funding valuation for CATSA's SRP or ODBP. However, CATSA's internal policy requires that a funding valuation for the SRP be performed whenever CATSA performs a funding valuation for the RPP.

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The provisions of the defined benefit pension plans were recently modified in terms of the employer and employee contributions. The new provisions stipulate that employee contribution rates will be commensurate with those of the *Public Service Superannuation Act* by April 1, 2017. Accordingly, employee contributions will increase and employer contributions for current service costs will decrease in the coming years, based on current funding assumptions.

The most recent actuarial valuations for funding purposes, and the next required actuarial valuations, are as follows:

	Most recent actuarial valuation for funding purposes	Next required actuarial valuation for funding purposes
RPP	December 31, 2012	December 31, 2013
SRP	December 31, 2012	December 31, 2013
ODBP	N/A	N/A

CATSA estimates that cash payments to be made to its funded defined benefit pension plans for the year ending March 31, 2015 will total $15,751, comprising of $12,548 of CATSA contributions and $3,203 of plan participant contributions.

Cash payments to be made to the unfunded ODBP for the year ended March 31, 2015 will be equal to the benefits paid to plan participants. CATSA estimates that cash payments to be made to the ODBP for the year ending March 31, 2015 will total $174.

As at March 31, 2014, the weighted average duration of the defined benefit obligation for the RPP, the SRP and the ODBP was 22.5 years (2013 – 22.7 years), 20.1 years (2013 – 20.1 years) and 24.1 years (2013 – 23.0 years), respectively.

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Year ended March 31, 2014

(h) Employee benefits expense

The following table provides a breakdown of employee benefits expense for the years ended March 31:

	2014	2013 (restated - note 3(p))
Employee costs (excluding post-employment and termination benefits)	$ 45,310	$ 43,466
Post-employment benefits		
Defined benefit pension plans and other defined benefits plan	12,207	13,126
Defined contribution pension plan	25	–
Termination benefits	326	2,628
Total employee costs *(note 11)*	$ 57,868	$ 59,220

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11. Expenses

The Statement of Comprehensive Income presents operating expenses by program activity. The following table presents operating expenses by major expense type for the years ended March 31:

	2014	2013 (restated - note 3(p))
Screening services and other related costs		
Payments to screening contractors	$ 344,690	$ 342,142
Uniforms and other screening costs	4,653	3,862
Trace and consumables	2,058	1,799
	351,401	347,803
Program support and corporate services		
Employee costs	57,868	59,220
Operating leases	6,181	6,509
Professional services and other business related costs	4,937	5,192
Office and computer expenses	4,373	4,363
Other costs	3,539	6,410
Communications	1,305	1,077
	78,203	82,771
Depreciation and amortization		
Depreciation of property and equipment	56,774	67,436
Amortization of intangible assets	4,645	5,684
	61,419	73,120
Equipment operating and maintenance		
Equipment maintenance and spare parts	45,052	42,331
RAIC	842	812
Training and certification	694	551
	46,588	43,694
	$ 537,611	$ 547,388

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

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

12. Government funding

Parliamentary appropriations approved were as follows for the years ended March 31:

	2014	2013
Parliamentary appropriations approved	$ 578,310	$ 557,001
Re-profiled parliamentary appropriations to future years	(7,566)	(28,005)
Unused portion of parliamentary appropriations	(14,067)	(17,311)
Total parliamentary appropriations used	**$ 556,677**	**$ 511,685**

Parliamentary appropriations used by CATSA were as follows for the years ended March 31:

	2014	2013
Parliamentary appropriations used to finance operating expenses *(note 9)*	$ 475,438	$ 473,287
Parliamentary appropriations used to finance capital expenditures *(note 9)*	81,239	38,398
Total parliamentary appropriations used	**$ 556,677**	**$ 511,685**

13. Commitments

(a) Operating leases

CATSA is committed under non-cancellable operating leases for the rental of equipment and office space. The following table provides the minimum lease payments under the terms of these leases for the years ended March 31:

	2014	2013
No later than 1 year	$ 7,575	$ 7,087
Later than 1 year and no later than 5 years	25,481	20,115
Later than 5 years	18,042	1,923

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(In thousands of Canadian dollars)
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CATSA's most significant non-cancellable operating lease is the lease for office space at headquarters. The lease expires on November 30, 2017 and the option to renew for five additional years was exercised during the year. The renewal terms incorporated lease incentives not included in the original agreement, and an option to further extend the lease for an additional five years, subject to the same terms and conditions. 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.

(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 minimum commitments under these contractual obligations for the years ended March 31:

	2014	2013
No later than 1 year	$ 552,815	$ 517,862
Later than 1 year and no later than 5 years	1,113,254	1,288,360
Later than 5 years	9,197	16,782

14. 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.

Income from these related parties amounted to $538,892 (2013 – $549,940), which represent parliamentary appropriations for operating expenses used and parliamentary appropriations for capital expenditures amortized. Expenses for these related parties amounted to $12,571 (2013 – $11,461), which include $11,330 (2013 – $10,112) in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

At year-end, amounts receivable from related parties were $110,480 (2013 – $59,073). These include $14,146 (2013 – $13,329) due from the Canada Revenue Agency for recoverable taxes paid on expenses and $96,677 (2013 – $45,685) due from the Government of Canada for parliamentary appropriations used during the year and not received at year-end. At year-end, amounts payable to related parties were $301 (2013 – $303), and outstanding commitments with related parties were $2,431 (2013 – $383).

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(In thousands of Canadian dollars)
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(b) Key management personnel

As at March 31, 2014, key management personnel of CATSA are composed of the 11 (2013 – 11) Board members and the six (2013 – six) members of the senior management team.

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

	2014	2013
Salaries, other short-term employee benefits and termination benefits	$ 1,722	$ 2,597
Post-employment benefits	436	430
Total parliamentary appropriations used	$ 2,158	$ 3,027

Other than the above compensation, there were no other significant related party transactions involving key management personnel and their close family members for the years ended March 31, 2014 or March 31, 2013.

(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 post-employment benefit plans consist of contributions as determined by actuarial valuations, as disclosed in note 10. There were no other transactions during the year.

Notes to Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2014

15. 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 TBS'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, 2014	March 31, 2013
Cash	$ 6,191	$ 9,076
Trade and other receivables	112,640	60,645
Trade and other payables	(118,831)	(69,721)
	$ –	$ –

CATSA's objectives, policies and processes for managing capital have not changed during the years ended March 31, 2014 or March 31, 2013.

CATSA is not subject to externally imposed capital requirements.

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(In thousands of Canadian dollars)
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16. 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:

	2014	2013
Decrease (increase) in trade and other receivables	$ (20,154)	$ 16,105
Decrease in inventories	750	1,439
Decrease (increase) in prepaid expenses	(211)	1,488
Increase (decrease) in trade and other payables	12,562	(10,113)
Decrease in current portion of provisions	–	(2,203)
Decrease in deferred government funding related to operating expenses	(489)	(2,658)
	$ (7,542)	$ 4,058

Interest income received and recognized during the year totalled $486 (2013 – $483).

Interest expense paid and expensed during the year totalled $3 (2013 – $Nil).

The change in trade and other receivables excludes an amount of $31,841 (2013 – $739) in relation to government funding related to capital expenditures, as the amount relates to investing activities.

The change in inventories excludes an amount of $50 (2013 – $269) 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 $36,548 (2013 – $1,394) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

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The change in net employee benefits liability excludes an amount of $9,562 (2013 – $4,771) in relation to the remeasurement of defined benefit plans for the year presented in other comprehensive income, as the amount relates to a non-cash remeasurement.

During the year, CATSA received non-cash proceeds of $32 (2013 – $879) related to the disposal of property and equipment, in the form of credit notes from a supplier.

17. Contingent liabilities

(a) Disputed claims

In 2012/13, CATSA was named as a defendant with the Attorney General of Canada in a legal action claiming damages for $75,183. 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.

In 2011/12, CATSA and one of its former officers were named as defendants with one other defendant in a legal action claiming damages in the amount of $2,180. Management is of the opinion that there is a defense to the claim. 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 insurance which could reimburse a portion of the total amount claimed.

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(b) Decommissioning costs

CATSA has identified contingent liabilities associated with the removal of hazardous materials from certain EDS equipment, as well as with lease agreements. Since it is not probable that an outflow of economic resources will be required to settle these legal obligations, no provision has been recorded in the financial statements. Should the probabilities change in the future, the maximum undiscounted cash flow required to settle these liabilities between 2014/15 and 2024/25 (2013 – 2013/14 and 2023/24) is estimated to be $1,642 (2013 – $1,646). There is no agreement for potential reimbursements against the contingent liabilities.