

# CATSA 2016 ANNUAL REPORT





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For more information, visit our website: [www.catsa.gc.ca](http://www.catsa.gc.ca)

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# CATSA BY THE NUMBERS

60.0 M



Passengers screened  
in 2015/16

6000+



Screening officers  
across Canada

101



Checkpoints

309



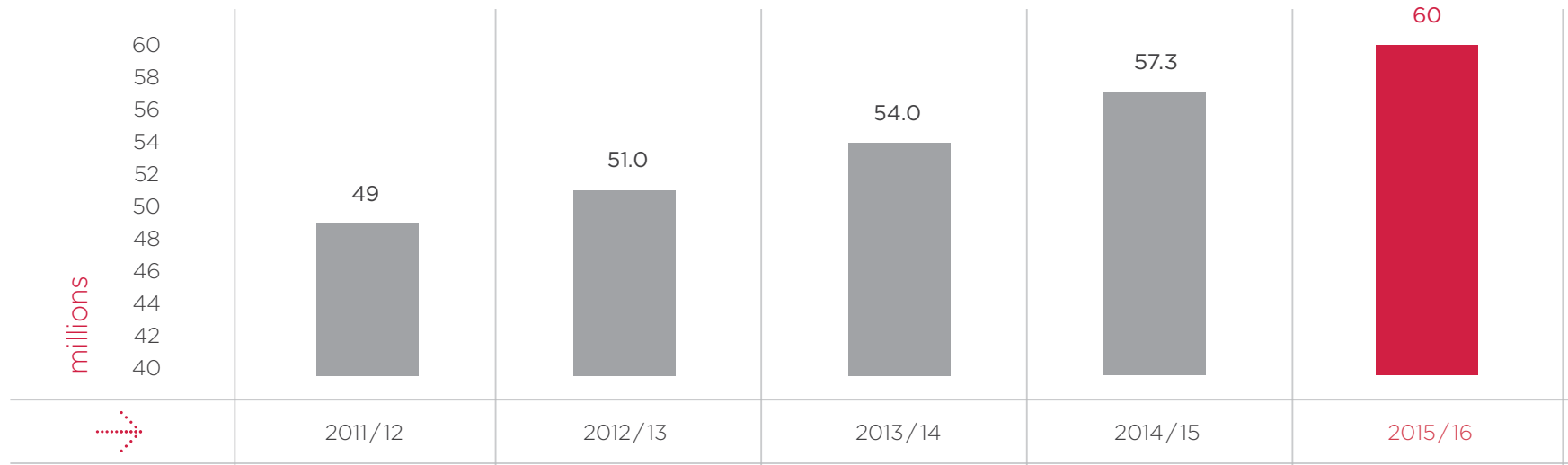
Screening lines

89



Airports across Canada

## Passengers Screened (in millions)



- Under optimal circumstances and based on calculation methodologies similar to our international partners, CATSA is able to screen approximately 159 passengers per hour per line.
- CATSA delivered a Wait Time Service Level where 89% of passengers were screened in 15 minutes or less on average at Canada's eight busiest airports.
- Despite significant growth in passenger volumes, CATSA has maintained wait time service levels without compromising security.
- CATSA has brought forward a number of efficiencies with tools such as the Wait Time Impact Model and the Screening Checkpoint Optimization Tool. These tools allow CATSA to make use of its high quality, real-time data on passenger arrivals at the checkpoint to plan resources strategically, and measure and optimize actual deployment tactically. Over time, these tools enable CATSA to increase efficiencies in its scheduling and operations.
- Over the last six years, CATSA has implemented operational efficiencies amounting to a total of \$92M on an ongoing annual basis, including reductions in Corporate Services costs. These savings have been returned to the Government of Canada through various efficiency reviews.
- CATSA takes passenger complaints very seriously. Overall, despite continuous increases in passenger volumes, the number of complaints CATSA receives is relatively small, averaging about one complaint per 50,000 screened passengers.



## CORPORATE PROFILE

Established on April 1, 2002, the Canadian Air Transport Security Authority (CATSA) is an agent Crown corporation funded by parliamentary appropriations and accountable to the Parliament of Canada through the Minister of Transport. Supported by its screening contractors and their screening officer workforce, CATSA screened over 60 million passengers and their belongings in 2015/16.

## 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.

## Our service

We provide the best possible passenger experience and deliver value to Canadians with an optimal use of our resources.



## VISION

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



## Our people

We are engaged, committed and succeed through teamwork.



## Our partnerships

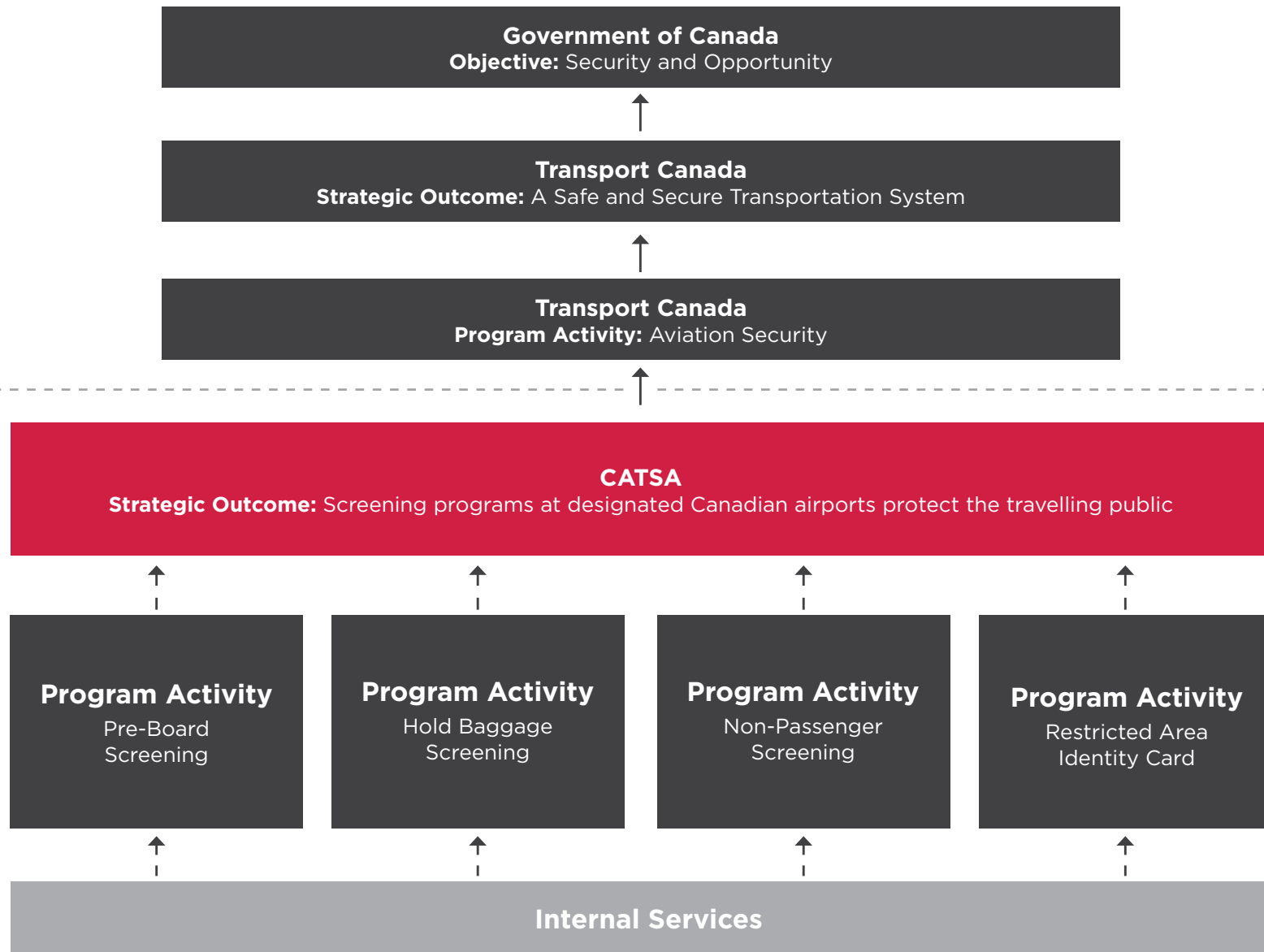
We work in collaboration with partners to generate mutual benefits and improvements.

# 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 on 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's Strategic Outcome of "Security and Opportunity," and TC's Strategic Outcome of "A Safe and Secure Transportation System." CATSA's PAA is presented in the illustration on the following page.



CATSA's Program Alignment Architecture:<sup>1</sup>



<sup>1</sup> Please note that CATSA refers to Internal Services as Corporate Services.

# ANNUAL HIGHLIGHTS



## Pre-Board Screening (PBS)

- In 2015/16, CATSA received supplemental funding from the Government of Canada to maintain a Wait Time Service Level similar to that in 2014/15. With this funding, CATSA delivered a Wait Time Service Level, where 89% of passengers were screened in 15 minutes or less on average at Canada's eight busiest airports.
- CATSA, in collaboration with Transport Canada (TC), used the Wait Time Impact Model to project the funding requirements for 2016/17, in order to maintain 2015/16 service levels. In March 2016, CATSA was informed that its reference levels would be adjusted for 2016/17, which will allow the organization to achieve a Wait Time Service Level similar to that of 2015/16.
- Leveraging successful results of previous pilots and trials, the CATSA Plus screening concept aims to transform the customer experience through tangible innovations to the screening process. It is a collection of modular features that can be assembled into packages adaptable to different airport environments, to yield the benefits of enhanced customer service, greater checkpoint capacity and enhanced security effectiveness. With the deployment of CATSA Plus screening equipment, airports are encouraged to invest to customize the look-and-feel and improve the aesthetics of the checkpoint environment to further enhance the passenger experience.
- CATSA worked in partnership with Calgary International Airport on the checkpoint design for their International Facilities Project. The new Calgary international terminal that is planned to open in fall 2016, will showcase the CATSA Plus screening concept.

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## Non-Passenger Screening (NPS)

- In what proved to be the most significant expansion to its operation since 2002, during the 2015/16 year, the screening program for vehicles was extended with enhanced coverage at Canada's busiest airports. This was achieved with the introduction of new technologies and accompanied by more robust screening procedures, resulting in an increase in the number of non-passengers screened. This ensures that CATSA continues to meet TC's requirements, which are aligned to International Civil Aviation Organization (ICAO) standards. The expanded program represents a significant expansion of CATSA's responsibilities.

## Hold Baggage Screening (HBS)

- CATSA continued its ten-year HBS Recapitalization Program. As part of the Program, CATSA upgraded its HBS systems with state-of-the-art technologies, supporting the *Beyond the Border: A Shared Vision for Perimeter Security and Economic*

*Competitiveness Action Plan* commitment to facilitate transborder travel. Due to close oversight and sound project management practices, this ten-year capital project remains on track to be completed in 2020.

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## Restricted Area Identity Card (RAIC)

- CATSA and airport authorities cooperated to maintain the effective, efficient and consistent operation of this mature program. In 2015/16, CATSA invested in

improving the efficiency of the RAIC enrolment system, deployed new handheld biometric readers and added three airports to the RAIC system.

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## Corporate Services

- CATSA continued to build on its relationship with key national and international stakeholders through a number of initiatives. In 2015/16, senior CATSA executives made visits to a number of airports nationwide where airport and airline officials expressed strong support about the innovative and collaborative aspects of CATSA Plus. The innovative aspect of

CATSA Plus was also presented at national and international meetings to industry stakeholders.

- CATSA also continued to provide advice and training to a number of federal departments, as well as international partners, demonstrating CATSA's advanced training expertise.



## MESSAGE FROM OUR CHAIR

Good governance is essential to every board, particularly during challenging times. With this in mind, the CATSA Board of Directors over this past year has focused its efforts on examining and refining the expertise required of our Board members, in order to best advise the Minister of Transport on strengthening the Board through future appointments. It is one thing to be cognizant of what good governance entails and to undertake the necessary actions to deliver on that requirement, but it is also essential to look forward to ensure that it endures.

Having an eye on the future also drives innovation and I'm happy to report that innovation continues to be alive and well at CATSA. Good ideas and breakthrough technologies abound in our industry to improve on current security screening processes. Everyone wants faster, less-intrusive security screening. But it is imperative that ideas and technologies are considered within the scope of our core mission to protect the travelling public.

To that end, all proposals that come to or are generated by CATSA, are thoroughly and diligently examined – from analysis in its test facility and

adaptation (if necessary), to field testing in a live environment, before finally proceeding to wide-scale adoption. No matter the aim, the results should never negatively impact security effectiveness. At times I know this process may be perceived as unduly bureaucratic and a hindrance to industry aspirations, but true progress must never involve compromising our ability to intercept a security threat.

The CATSA team has worked hard in the last few years to arrive at new technologies and processes that I believe will soon transform security screening in some of Canada's busiest

Everyone wants faster, less-intrusive security screening. But it is imperative that ideas and technologies are considered within the scope of our core mission to protect the travelling public.

airports. And it has continued to build and strengthen relationships within the industry that will serve the organization well for years to come. On behalf of the Board, I thank all CATSA employees for their ongoing efforts. And I thank our industry partners, who have worked with CATSA toward the mutual goal of enhancing security, while improving the air travel experience. This includes

airport authorities, airlines, industry associations, CATSA's regulator, TC, its screening contractors and the thousands of screening officers, who are dedicated to ensuring air travel in Canada remains secure for all.

Finally, I would like to thank all Board members for their continued efforts, especially Joanne Whittle whose

tenure is now complete, and to welcome Raf Souccar of Ottawa as our newest member. It remains my privilege to undertake this critical work alongside you.



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Lloyd A. McCoomb, Ph.D., P.Eng., ICD.D, Chair



## MESSAGE FROM OUR PRESIDENT AND CHIEF EXECUTIVE OFFICER

In my four years at CATSA, two things have stood out as central to our success - innovation and collaboration.

Innovation comes in many forms at CATSA. Sometimes it's a simple concept that can make a marked difference, like providing a ceramic cane to passengers requiring a mobility aid as they pass through the Walk Through Metal Detector (WTMD). Other times, it's a new take on an existing technology, such as the development of an in-house App, which brings performance measurement at the checkpoint to a new level.

Over the course of the past year, however, we have entered a new phase in our innovation efforts - one that has

involved a convergence of the best solutions, processes and technologies CATSA has trialed and tested over the last few years. It is called the CATSA Plus screening concept and it's an efficiency-driven, passenger-centric redesign of our front-line screening operations. I'm happy to report that it is generating great interest within the industry and shows great promise as the next phase of aviation security screening in Canada.

The timing is critical as CATSA moves forward in its corporate evolution. Now 14 years in, many of our processes and technologies have matured to the point, where a repackaging and reforming of security lines and processes is essential. CATSA Plus is the next step on this

journey and will bring with it exciting opportunities for CATSA to meet the current and future needs of the aviation industry.

In the meantime, our ongoing operations ensure we stay focused on over 160,000 passengers, who arrive and travel through CATSA's 89 designated airports each and every day. In 2015/16, this included continuing work on activities that will improve our services such as new trials, technology evaluations, hold baggage equipment recapitalization, enhanced NPS and preparations for the opening of new facilities at Calgary International Airport, where the first CATSA Plus checkpoint will be installed.

Our successes have been largely due to a dedicated team of employees and to effective collaboration, as we continue to build and maintain strong relationships with our screening contractors, partners and stakeholders in the aviation industry.

Our successes have been largely due to a dedicated team of employees and to effective collaboration, as we continue to build and maintain strong relationships with our screening contractors, partners and stakeholders in the aviation industry. These alliances are essential, as they assist us in our everyday activities and with our greater goal of achieving the highest levels of security and customer satisfaction possible. Whether it's integrating our respective

planning cycles, sharing construction plans or simply strengthening communications on real-time operational issues, the value to all parties is immense. As such, reaching out to airports, airlines and associations has been and continues to be a priority.

The most visible of our activities is the PBS services undertaken at checkpoints across the country by over 6,000 dedicated and professional

screening officers. Our everyday work in screening passengers and their belongings as effectively, efficiently and seamlessly as possible, relies on the efforts of these hard-working individuals, and for that I thank them.

These are exciting times at CATSA with tremendous opportunities ahead and I look forward to another fruitful year.

A handwritten signature in black ink, reading "Angus Watt". The signature is written in a cursive style with a long horizontal stroke extending from the end of the name.

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Angus Watt, President and Chief Executive Officer





# MANDATED ACTIVITIES



CATSA delivers the mandate of 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 is responsible for the delivery of the following four mandated activities:

## Pre-Board Screening

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.

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## Hold Baggage Screening

Screening officers use specialized equipment to screen passengers' checked baggage (or hold baggage), to

prevent the boarding of prohibited items such as explosives.

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## Non-Passenger Screening

At restricted-area access points across the country, non-passengers are randomly selected for screening by CATSA's screening officers. Some examples of non-passengers

include CATSA personnel, flight and cabin crews, airline customer service personnel, caterers, maintenance personnel, baggage handlers, vendors, and other airport service staff.

## Restricted Area Identity Card

The RAIC system, created by CATSA in partnership with TC 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 TC in 2010, CATSA is authorized to conduct screening, where capacity exists, of cargo at smaller airports.

Each of these mandated activities is carried out effectively, efficiently, consistently, and in the public interest, as required by the *CATSA Act*.



# OPERATING ENVIRONMENT

# OFFICE OF THE AUDITOR GENERAL OF CANADA (OAG) **SPECIAL EXAMINATION RESULTS**

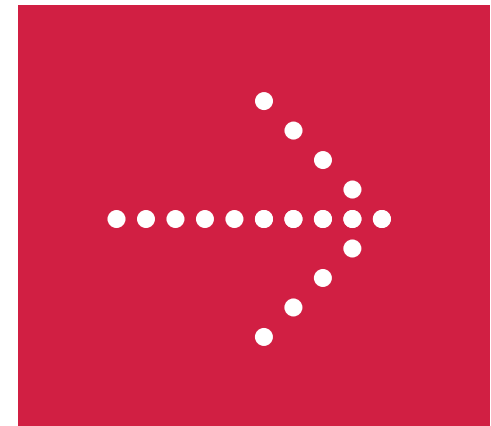
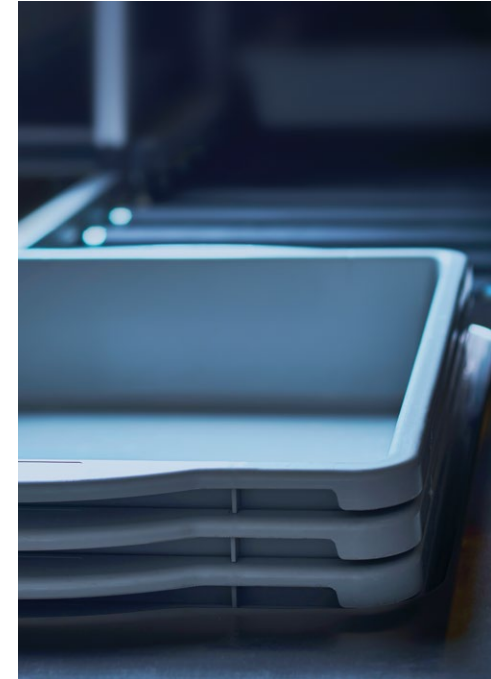
Under the *Financial Administration Act*, CATSA is subject to a Special Examination at least once every ten years.

This Examination is used to determine whether CATSA's systems and practices provide the organization 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 Special Examination began in 2013/14 and the OAG presented its final report to CATSA in June 2015. The OAG concludes that the two significant deficiencies identified in the 2006 Special Examination Report had been addressed. It also concludes that

CATSA provides reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. The final report can be found [here](#).

CATSA agreed with each of OAG's seven recommendations. CATSA took steps to immediately address each recommendation and is working towards their implementation. As of March 31, 2016, four recommendations have been completed and the last three recommendations are near completion with one expected to be completed within the next fiscal year.



# LEGISLATIVE FRAMEWORK



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

In Canada, the federal government is responsible for the security of the aviation sector, with TC serving as the lead department for Canada's aviation security program. As CATSA's regulator, TC 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 *CATSA Act*; the *Financial Administration Act*; the *Aeronautics Act*; *Canadian Aviation Security Regulations*; and *Screening Security Measures*.

# REGULATORY ENVIRONMENT

CATSA is also affected by changes made by major international partners, such as the U.S. and the European Union. When changes are sought by other jurisdictions or ICAO, TC endeavours to accommodate such changes, while minimizing the impacts on passengers and industry. Furthermore, as a member of ICAO, Canada has an obligation to comply with ICAO aviation security standards.

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

In 2015/16, several regulatory developments have translated into changes to CATSA's operations. Most significantly, CATSA worked with TC to enhance the NPS program in several phases, introducing new security measures. NPS

enhancements also included the expansion of the RAIC program to three new airports. Other significant developments included the deployment of a new Trusted Traveller program to Domestic and International checkpoints at major airports, the deployment of the One-Stop-Security program (which allowed passengers from certain countries to connect through Canadian airports without having to be rescreened), and the testing of Full Body Scanner (FBS) machines as a primary screening method.

# 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 belongings, 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 belongings, but also aid continuous movement through the system. Delays

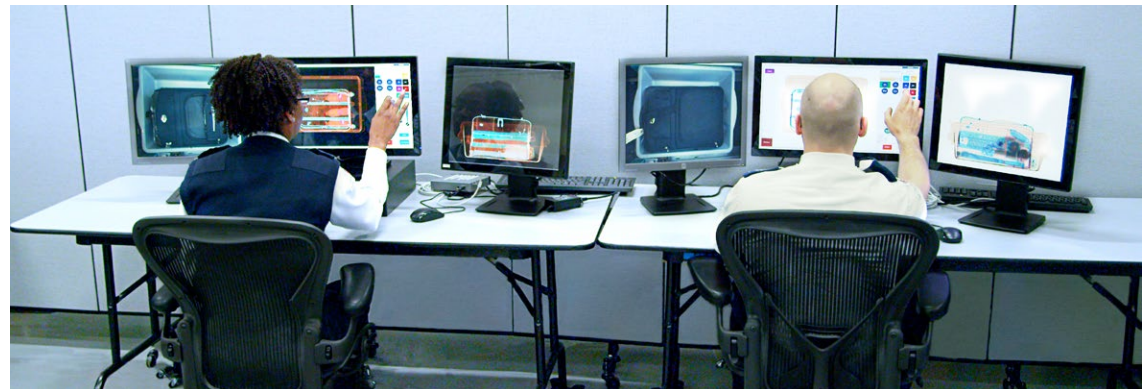
at one airport can have ripple effects across the system. CATSA recognizes that good relationships with partners are critical to the overall positive performance of aviation security activities and to the day-to-day success of delivering its mandate. CATSA is committed to continue strengthening and building collaborative relationships with industry partners.

# LABOUR RELATIONS

CATSA outsources its services to screening contractors, who rely on a unionized screening officer workforce to deliver screening services. CATSA has certain responsibilities with regard to screening officers' work, such as developing Standard Operating Procedures (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.

Collective bargaining agreements expired on March 31, 2015 and CATSA worked closely with screening

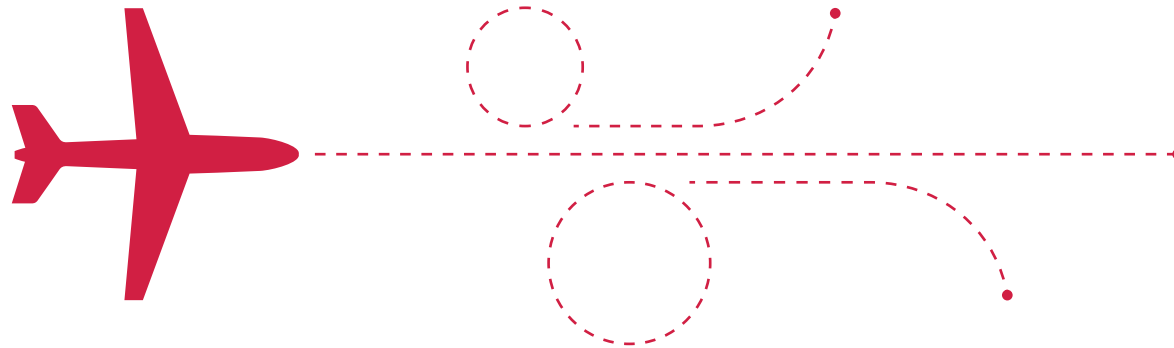
contractors to maintain labour stability. By fall 2015, new collective bargaining agreements were in place for all regions.





**RISK**  
**ENVIRONMENT**





CATSA's ability to respond to a 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, evaluating, acting on and communicating risk throughout the organization. This approach contributes to risk-informed decision-making, which enables CATSA to effectively manage uncertainties and capitalize on opportunities.

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

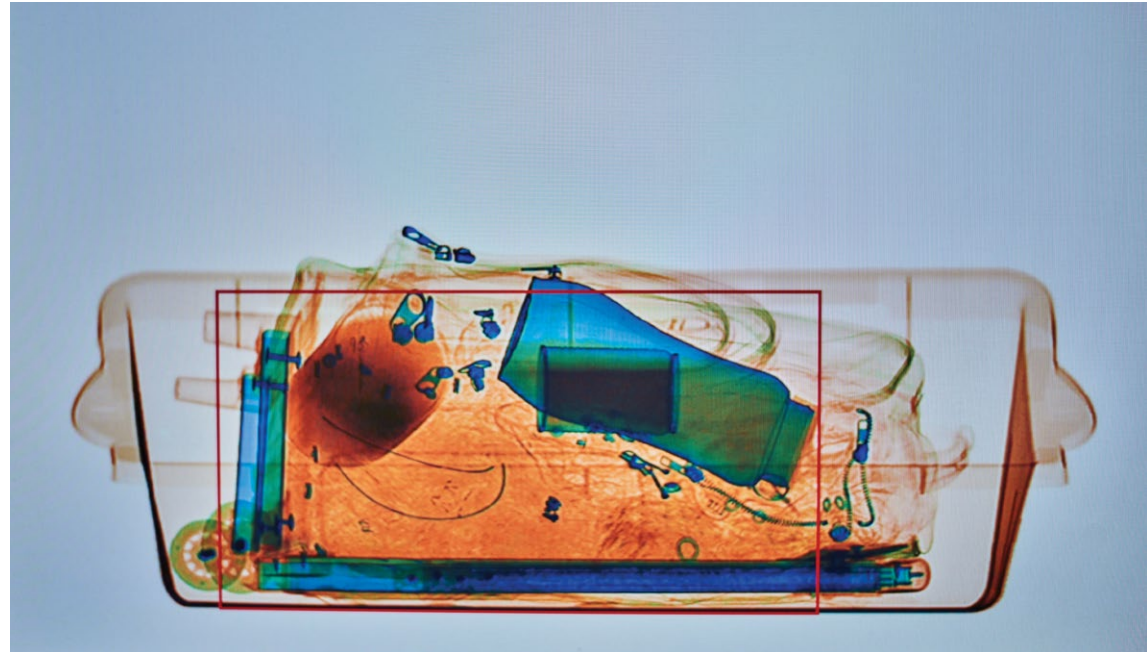
- 1 To deliver mandated activities in an effective, efficient and consistent manner, while safeguarding the interests of the travelling public; and
- 2 To provide services or programs, in support of its mandated activities.

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CATSA's mandate is not that of an intelligence gathering organization; rather, it relies upon directives from TC, in order to respond to threat and risk information, identified by intelligence agencies. The organization's mandated security screening programs provide a web of security that helps to reduce aviation security risks across the system.

# RISK GOVERNANCE

CATSA has established a comprehensive risk management framework, which identifies corporate risks associated with CATSA's environment and operating activities. CATSA conducts an annual corporate risk profiling exercise, whereby corporate risks are identified and assessed against established criteria, after taking into account CATSA's existing controls to mitigate them. CATSA's corporate risks are then actively monitored and re-assessed on a quarterly basis by the Senior Management Committee (SMC) and reported to the Board of Directors (BoD). This process is flexible as it enables the organization to include new and emerging risk information for consideration and assessment, and enables senior management to analyze emerging and forward-looking risk trends.



## Board of Directors

The BoD's key function and responsibilities are to provide strategic direction, financial oversight, corporate oversight and governance. With respect to risk management, it ensures that senior 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.

## Senior Management Committee

The SMC is responsible for assessing CATSA's key risks, evaluating corporate risks as per CATSA's risk attitude and ensuring appropriate controls and mitigation strategies are in place and implemented to effectively manage these risks. The role includes supporting risk awareness and communicating risks throughout the organization.

# RISKS AND UNCERTAINTIES

CATSA's key risks are a snapshot of those risks that could impede the organization's ability to achieve its strategic objectives. The following is a summary of CATSA's key corporate risks.

## **Mandated Services Risk**

### **Detection capability**

Security effectiveness is CATSA's top priority. CATSA is mandated to provide screening, in accordance with the security regulations, measures and directives set by TC. There is a risk that CATSA may not detect all high-risk threat items, which may result in substantial consequences to the civil aviation system.

To address this risk, CATSA works to continually review, test and improve the effectiveness of its operational processes and procedures, develops and administers a continuous screening officer training and certification program, and also maintains a capital program to support the replacement and upgrading of screening equipment.

## **Threat and risk information**

The continuously 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 continuous monitoring and analysis of threat and risk information from external sources, and disseminates this information to the appropriate decision-makers. Detailed integrated response strategies, include ensuring business continuity and emergency response plans are in place, to respond to this threat and risk information. To strengthen the resilience of these plans, they are periodically tested and exercises conducted.

## **Capacity Risk**

### **Capacity - core mandate**

CATSA faces a variety of external challenges and pressures such as increases in screening contractor billing rates and rising passenger volumes. While efficiencies will continue to be pursued, productivity gains cannot be expected to offset the reduction in CATSA's ability to purchase screening hours over the coming years. Consequently, passengers may wait longer to be screened.

In March 2016, CATSA was informed that its reference levels will be adjusted for 2016/17, which will allow CATSA to achieve a Wait Time Service Level similar to 2015/16. CATSA continues to work with TC on identifying an operationally effective long-term funding strategy to address this risk.

## **Service Delivery through Third-party Risk**

### **Illegal 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 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 an illegal 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 - outsourcing**

Given CATSA's service delivery model, the organization relies on screening contractors for delivering a critical and mandated service for air travellers in Canada. 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 its screening contractors.

## **Reputational Risk**

### **Reputational risk**

Stakeholders have raised concerns about CATSA's operations on a variety of issues and have questioned whether CATSA's delivery of mandated services provides 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 intercept surveys and the expanded use of social media to engage its multiple

stakeholder groups. Over the longer term, the commitment to innovation, including the implementation of CATSA Plus, is being enthusiastically embraced by industry. Stakeholders appreciate how CATSA can transform the customer experience in the coming years.

## **Management Systems/ Control Systems Risk**

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

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

To address this risk, CATSA has a variety of physical security 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.

## Organizational preparedness for emergencies

An integrated business continuity and emergency management plan is essential to ensure continuity of operations and recovery from major incidents or emergencies. There is a risk that CATSA's business continuity and emergency response plans may not be fully integrated, tested and understood, in order to effectively respond to and recover from emergencies, and maintain operational readiness.

To address this risk, the plan is regularly updated and various components of the plan are tested on an annual basis, and any identified gaps are subsequently corrected and addressed during upcoming review processes.

## Human Resources Risk

### Human resources risk

CATSA strives to maintain an engaged, high-performing workforce. The uncertainty caused by recent workforce adjustments, posed a challenge to CATSA's ability to recruit new talent, retain its key talent and corporate memory, and maintain employee engagement.

To address this risk, the organization is focusing on initiatives to retain talent, promote enrolment in professional development training, and develop and implement strategies to enhance employee engagement.

Since the implementation of workforce adjustments in July 2015, CATSA ended a self-imposed hiring freeze, and began to aggressively staff vacant positions with qualified candidates. Voluntary attrition of CATSA's workforce has since returned to its low historic levels.

## Information Technology (IT) Risk

### IT risk

Government departments, agencies and Crown corporations are constantly exposed to a variety of cyber threats to their IT infrastructure. There is a risk that cyber threats and/or attacks may negatively impact CATSA's IT infrastructure and/or compromise organizationally-sensitive information, resulting in a loss of public confidence and potential damage to CATSA's reputation.

To address this risk, the organization has a variety of devices, systems, processes and procedures to safeguard the organization's IT infrastructure.

# REPORTING ON RESULTS



CATSA realized a number of notable accomplishments and changes that have improved its operations in 2015/16. 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.<sup>2</sup>

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.

<sup>2</sup> Due to their sensitive nature, results from PBS, HBS and NPS tests, and data related to PBS security breaches are not included.



# PRE-BOARD SCREENING

## Key Accomplishments

### Innovation – CATSA Plus

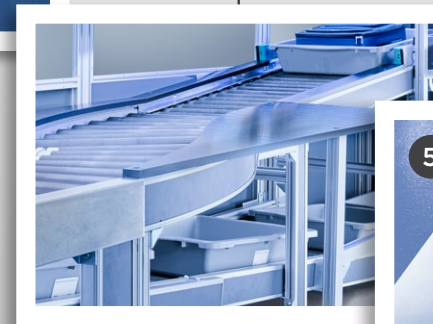
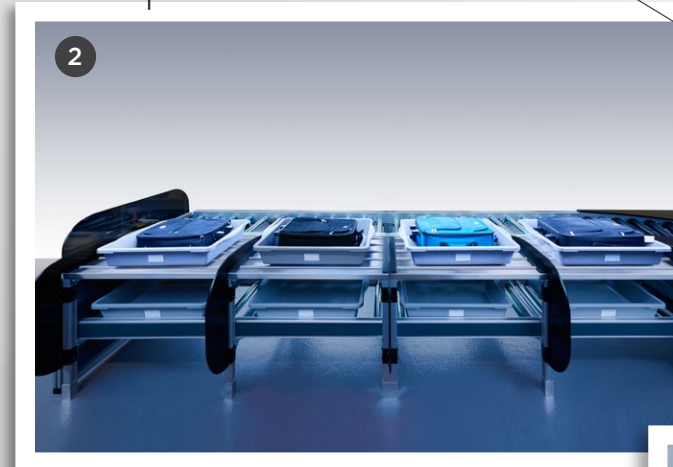
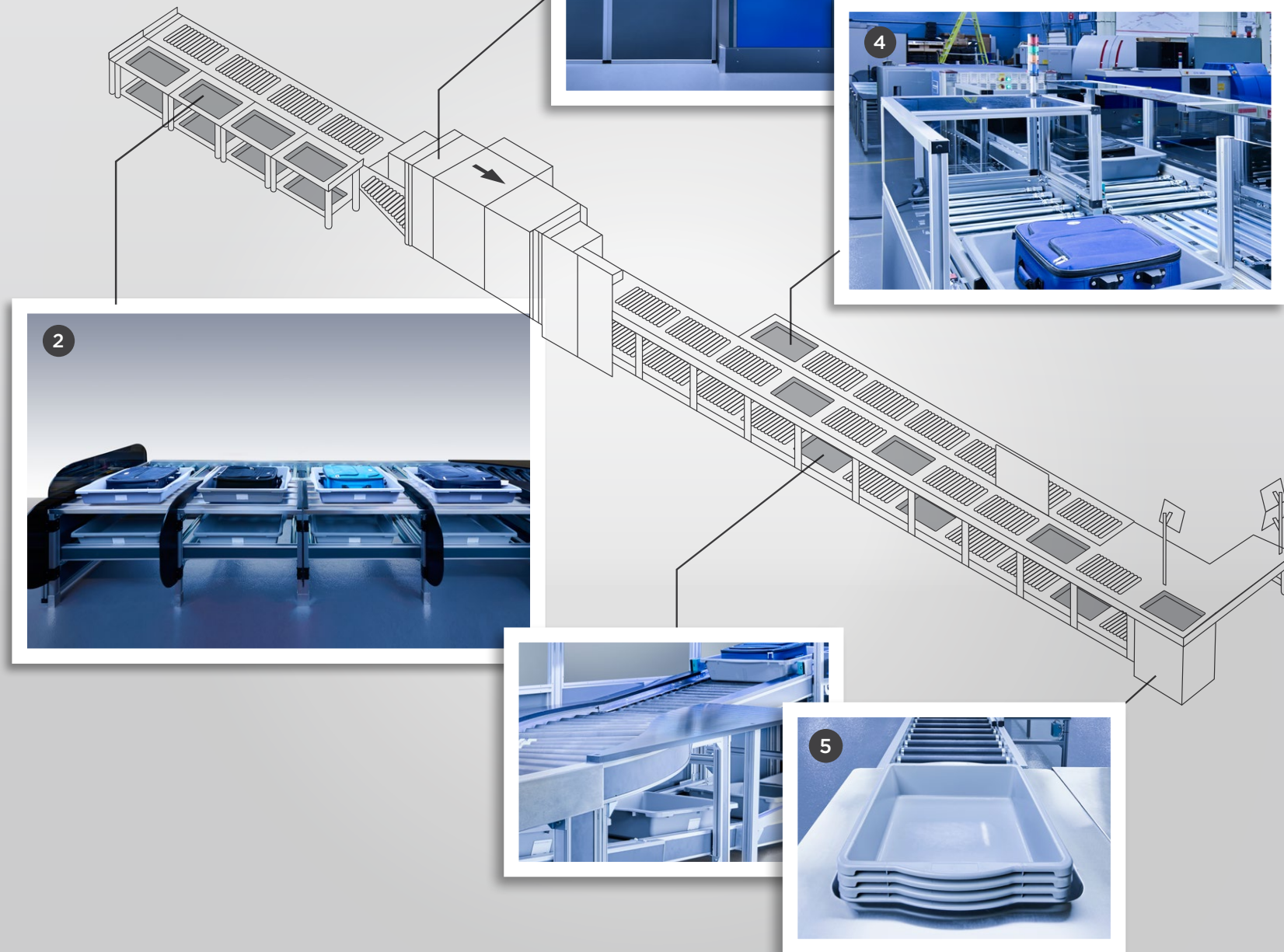
CATSA's success has been built on a culture of innovation and continuous improvement, testing new technologies and processes, and conducting trials at airports. CATSA is now in a position to leverage the successful results of recent pilot projects and trials in the form of the CATSA Plus screening concept.

The CATSA Plus screening initiative includes modern, higher-performance security screening lines with processes and innovative technologies, designed to maintain security, enhance efficiency and improve the customer experience.

# CATSA · ACSTA PLUS

The CATSA Plus screening concept comprises a collection of modular features that can be assembled into “Full” and “Tailored” packages, adaptable to different airport environments, depending on checkpoint size, space and passenger volumes. The features of a full CATSA Plus checkpoint include the following and are illustrated in this [video](#):

- 1 eGates and tracking sensors
- 2 Parallel divest stations
- 3 Positive bin tracking and continuous X-ray belt
- 4 Motorized bag diverter with split lanes
- 5 Motorized bin return
- 6 Improved repack area (not illustrated in the diagram)
- 7 Remote X-ray image review (not illustrated in the diagram)



For large checkpoints with adequate space, the benefits include:

- > Substantial improvement in X-ray processing capabilities, through centralized image processing and automated conveyors.
- > Self-service features and minimal interactions with screening officers for passengers, who do not generate an alarm during the screening process.
- > Provide more time to divest for those who need it, while providing a bypass for those who do not, through parallel divesting.
- > Increased security effectiveness with bin tracking and separation of items requiring search.
- > Better utilization of resources through automation.
- > Enhanced customer service through partnerships with airports on checkpoint aesthetics and queue design enhancements.

## Benefits and Advantages of CATSA Plus

### Before the checkpoint:

One of the bigger changes before a passenger even reaches the checkpoint is the automation of non-screening functions, which allows screening officers to focus on screening functions and helping passengers. This is achieved through the Queue



Management System (QMS), which involves the installation of tracking sensors and eGates. A network of tracking sensors in the ceiling anonymously tracks passenger movements in the queue and within the checkpoint, thereby reducing the number of times a boarding pass is scanned. eGates installed at the entrance of the checkpoint automatically validate boarding passes and Trusted Traveller credentials, and inform passengers of the next available screening line.

### At the beginning of the line:

Parallel or separate divest stations allow multiple passengers to divest their belongings simultaneously and ensure a continuous flow of bins to the X-ray. This provides additional time for less experienced travellers, who no longer have to feel pressured by passengers behind them to move quickly; more experienced travellers, who divest more quickly, can bypass them.

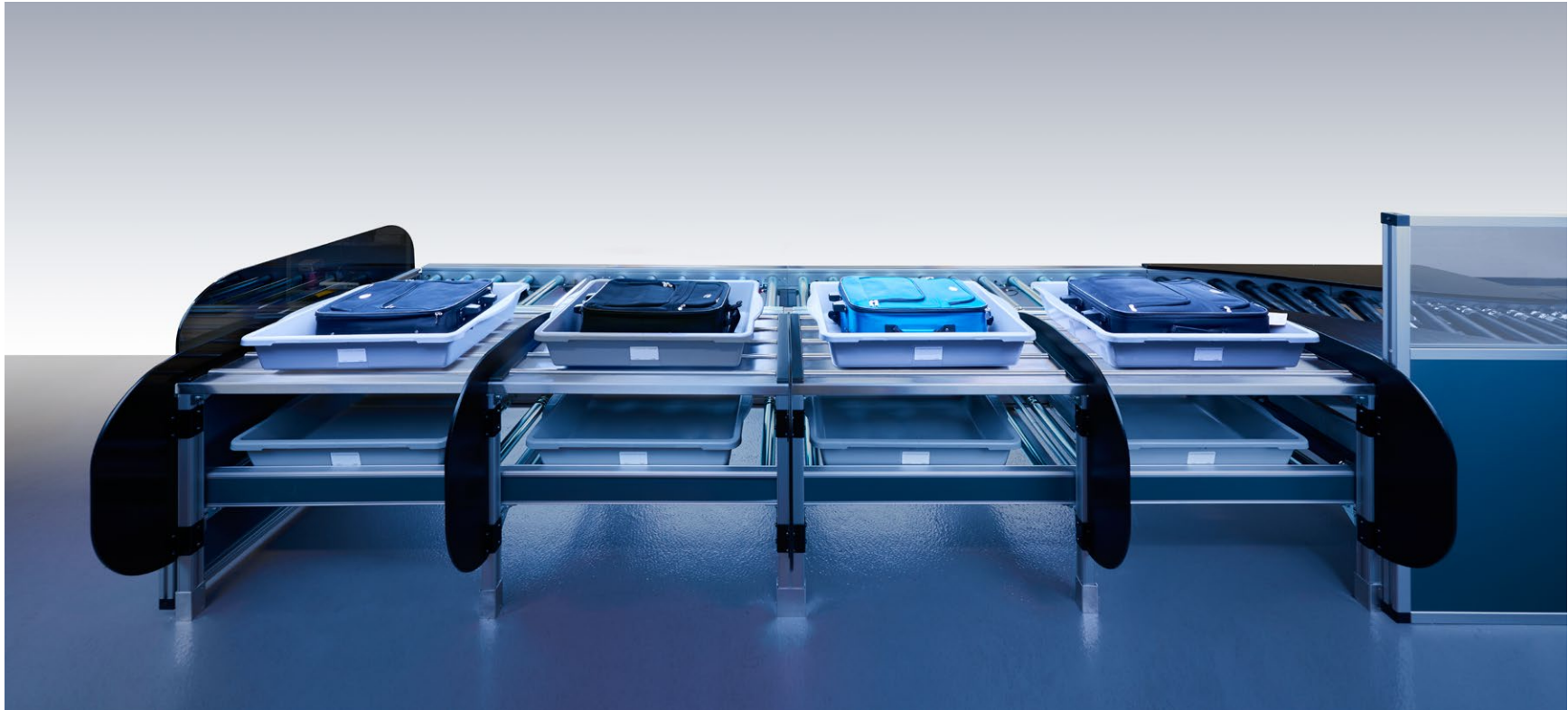
**QMS builds upon previous CATSA trials including Automated Randomizer, Trusted Traveller eGate, Automated Wait Times and the removal of the Full Search Line to combine multiple concepts into one system. This innovative trial is the first of its kind in the world.**

**In 2015/16, QMS was operating as a separate standalone system at the Edmonton International Airport as CATSA continued to improve the system.**

**A passenger intercept survey was conducted where**

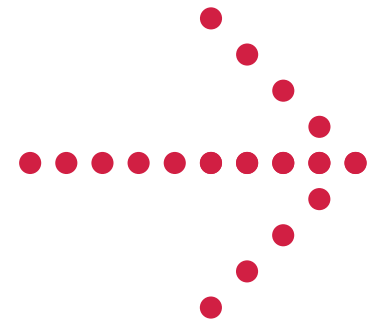
**96%**

**of passengers were generally supportive of the use of eGates.**



**In 2015/16 CATSA trialed the parallel divest concept, and observed an increase in throughput.**

Carry-on baggage is placed in bins, which are tracked by a unique identifier (e.g., a Radio Frequency Identification tag) through the system and a photo is taken of each bin before entering the X-ray. The photo, in addition to the X-ray image, enables rapid identification of items that require a search.



Following a successful trial in 2013/14 at Toronto Pearson International Airport that saw increases in throughput, improved processing times, and higher passenger satisfaction, split lanes were deployed at select checkpoints in Vancouver, Ottawa, Edmonton, Montreal, Toronto, Fort McMurray, Victoria, Winnipeg, Calgary, Halifax, Saskatoon, and Quebec City.

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In 2015/16, CATSA conducted trials at Halifax and in Quebec City to enhance the use of manual split lanes by setting time limits on X-ray image analysis. Among other positive results, these trials were successful in increasing X-ray bag throughput, indicating there is value in establishing a time limit for X-ray image analysis, during peak hours at screening lines configured with split lanes.



#### At the X-ray:

The X-ray is traditionally a bottleneck; the line can only move as quickly as the X-ray operator processes images. With CATSA Plus, the X-ray operator operates continuously and allows for the constant flow of items through the machine. Multiple screening officers are located in a remote room in a quiet area, away from distractions at the checkpoint. All X-ray image analysis workstations are connected on a locally networked system, which assigns X-ray images to the first available screening officer. This enables the X-ray to operate in a continuous screening mode and significantly improves X-ray processing capabilities.

#### After the X-ray:

The traditional single screening lane is split into two parallel lanes. If there is an item of concern, the X-ray screening officer can “reject” the item and divert it to the separate search line for additional screening. Furthermore, based on industry input, when the X-ray screening officer has reached the time limit allowed for image analysis, the item is diverted to the search line. While the item is being searched, other “cleared” items proceed down the regular lane. This automates the care and control of bins requiring additional screening, and enhances security and improves flow through the line.



### **End of the line:**

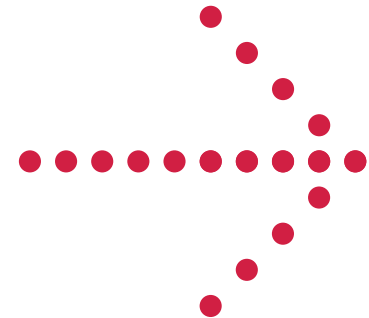
There is also automation of functions at the end of the line. A motorized bin return simplifies the process of returning empty bins to the divest stations, leaving screening officers to perform screening functions and help passengers.

An enhanced repack zone permits more passengers to repack at the same time. It consists of additional tables and benches or chairs that are not attached to a specific screening line. This area allows passengers to take additional time to repack, without feeling pressure from other passengers to move quickly.

The extra repack space reduces bottlenecks by moving passengers and their belongings away from the screening line, and allows other passengers and their belongings to proceed through at their pace.

### **Checkpoint aesthetics:**

This allows for a collaborative effort between CATSA and airports to enhance the physical appearance of the checkpoint. A menu of options permits varying degrees of airport investment to customize the look-and-feel of the checkpoint environment, for an enhanced passenger experience.



## **A Show Case – Calgary International Airport**

In anticipation of passenger growth and as part of their business plans, Calgary International Airport is building a new terminal, the International Facilities Project, which is planned to open in fall 2016.

The new facilities at the Calgary International Airport will provide the first opportunity to demonstrate the full CATSA Plus screening concept in a brand new checkpoint, integrating all successful pilots and trials at one location with a large, spacious checkpoint. By replacing standard screening lines with higher-performance ones, an increase in passenger flow and improvement in the customer experience is expected, while security effectiveness is enhanced.

While work on the Calgary project has progressed, CATSA has also, over the past six months, presented the CATSA Plus screening concept to several airport authorities and TC aviation security officials, and the feedback

has been overwhelmingly positive. Airports view the investment in CATSA Plus as the way to increase screening capacity and the flow of passengers — to address the screening “bottleneck” — and to transform the customer experience. The issue of reaching maximum screening capacity has emerged as one of the top priorities of airports, particularly at the four largest airports: Toronto, Vancouver, Montreal and Calgary.

## **Throughput – More Efficient Screening**

Gains in efficiencies have allowed CATSA to substantially increase the number of passengers processed per hour. CATSA’s throughput levels have increased significantly since 2010, when CATSA was processing approximately 90 passengers per hour per line. Currently, with four to five screening officers per line (less than in 2010), based on calculation methodologies similar to our international partners, CATSA is able to screen approximately 159 passengers per hour per line.

While CATSA does not have a government-mandated service level standard in terms of passenger wait times, it uses its PBS Wait Time Service Level<sup>3</sup> as an important planning tool to ensure that resources are allocated in an efficient and consistent manner. CATSA has not been fully funded for passenger growth or increases in screening contractor billing rates. Consequently, CATSA’s PBS Wait Time Service Level has declined over the last few years. In 2012/13, CATSA was able to screen 96% of passengers in 15 minutes or less. In 2013/14, CATSA was able to screen 92% of passengers in 15 minutes or less and by 2014/15, CATSA’s PBS Wait Time Service Level decreased to 87% of passengers waiting 15 minutes or less. With supplemental funding approved in Budget 2015, CATSA was able to deliver a service level of approximately 89% of passengers screened in 15 minutes or less on average at Canada’s eight busiest airports in 2015/16.

Adopting an evidence-based approach in combination with high-quality real-time data, CATSA is able to estimate

<sup>3</sup> CATSA’s PBS Wait Time Service Level is measured as the percentage of passengers, who waited less than a specified number of minutes to be screened at Canada’s eight busiest airports.

and project the cost of various service levels over time, and in turn provide reliable forecasts to the Government of Canada. In March 2016, the Government approved supplemental funding for CATSA to continue offering a level of service in 2016/17 similar to 2015/16. This funding is for 2016/17 only and after this fiscal year, absent of a long-term funding strategy, CATSA's reference levels will revert to Budget 2010 levels.

Given its current reference levels and expected passenger growth and screening contractor billing rates increases, CATSA's PBS Wait Time Impact Model is forecasting significantly longer passenger wait times from 2017/18 onward. CATSA continues to work with TC on identifying an operationally effective long-term funding strategy to minimize the impact of longer wait times.

### **International Compatibility**

CATSA's innovative PBS activities, as determined and regulated by TC, are ultimately influenced by ICAO, as well as the need for CATSA to maintain international compatibility with the U.S. and countries in the European Union, in terms of the level of security screening

provided and screening equipment used. In particular, CATSA's regulatory environment is largely influenced by the U.S. Transportation Security Administration (TSA).

### **Smart Security**

As a member of the International Air Transport Association (IATA) and Airports Council International's (ACI) Smart Security initiative, CATSA has been and will continue to be influential, when it comes to the future of aviation security screening.

CATSA is a leader in the IATA and ACI Smart Security Management Group (SSMG). The SSMG consists of 15 global industry and government leaders in aviation security and steers the Smart Security initiative. With a key role in the governance of the SSMG, CATSA is able to contribute to setting a course for passenger screening in the future. TC is a member of the SSMG.

### **Harmonized Trusted Traveller (HTT)**

In January 2013, TC and TSA agreed to harmonize PBS procedures for Trusted Travellers at transborder checkpoints as part of the *Beyond the Border Action Plan*.

**The Smart Security initiative is aimed at developing a passenger screening process that strengthens security, increases operational efficiency and improves the passenger experience through the introduction of risk-based security concepts, advanced screening technologies and process innovations. In partnership with industry and government partners, Smart Security leads research, tests and pilots implementations of innovative screening solutions to accelerate the adoption of successful concepts at airports around the world.**

Harmonization introduces new screening procedures that provide select passengers travelling to the U.S., who have undergone background screening and are deemed 'low-risk,' tangible benefits. This includes a different screening process that takes into account their low-risk status. These passengers, for example, will not be required to remove clothing such as coats, hats, belts, or shoes,



and will be able to keep permitted liquids in carry-on baggage. These new procedures further promote risk-based screening.

In December 2014, CATSA expanded the program to transborder checkpoints at four of Canada's busiest airports: Calgary, Montreal, Toronto and Vancouver. In addition, under TC's direction, CATSA also expanded the scope of passengers eligible for accessing the HTT screening lines to comprise new groups, including Global Entry passengers, members of the military and air crew. CATSA worked with TC to expand this concept to also include select domestic and international Trusted Traveller lines.

As part of the HTT requirements at transborder checkpoints, a new randomizer application was developed by CATSA and runs on an Android tablet. The randomizer will select certain Trusted Travellers, at random, to undergo an additional layer of security screening.

In 2015/16, the HTT randomizer tablet was trialed with success at Toronto Pearson International Airport's transborder checkpoint with positive feedback from CATSA regional employees. CATSA plans to deploy this application

at the four remaining transborder checkpoints over the coming year.

### Full Body Scanner

Approved by Health Canada, FBS units use low-level radio-frequency to detect both metallic and non-metallic objects on a person. These machines provide an effective additional layer of security for the travelling public, as well as improve security effectiveness, increase the utilization rate of screening equipment and determine the impact on checkpoint performance. Currently, FBS units are used as a secondary screening tool at CATSA's PBS checkpoints.

The U.S. and the Netherlands have implemented FBS units as a primary screening tool and there are a number of other countries that are also considering moving in this direction. In an effort to try to harmonize our screening process, TC requested that CATSA conduct a trial where the FBS equipment is used as a primary screening tool.

In 2015/16, an FBS unit was trialed as a primary screening tool at Toronto Billy Bishop Airport. FBS usage and the opportunity to detect non-metal threat

items on a person increased significantly, while the overall checkpoint performance saw a slight decrease in passenger throughput, suggesting that CATSA trial the concept at a larger airport, in order to analyze the impact to screening operations at a checkpoint with higher passenger volumes.

### Greater Toronto Airport Authority (GTAA) Supplementary Screening Lines Trial

In fall 2014, CATSA and the GTAA entered into a Supplemental Screening Trial Agreement to assess the feasibility of a cost recovery mechanism for PBS. The trial, approved by TC, ran from October 2014 - March 2016.

The trial enabled the GTAA to purchase additional screening services in the form of supplemental screening lines. These lines were staffed by four screening officers, over a four-hour period, during time periods and at locations that were jointly determined by CATSA and the GTAA. During the trial, CATSA maintained the authority to move resources as required between checkpoints and to reduce the capacity available to the GTAA on any given day as needed.

To date, results indicate that the trial is achieving reductions in passenger wait times and mitigating the effects of decreased funding at the times and locations, where supplemental screening lines were deployed.

The GTAA has expressed a desire to continue purchasing additional screening services past March 31, 2016. In 2016, TC supports an extension until March 2017. CATSA will continue to work with TC and the GTAA to refine the cost recovery framework.

## **Passenger Facilitation and Passenger Assistance**

### **Opening a dialogue with transgender passengers**

Following a string of highly publicized stories in the U.S. involving transgender passengers, CATSA reached out to EGALE, an organization promoting lesbian, gay, bisexual and transgender human rights through research, education and community engagement. Discussions followed on several

topics, including the barriers faced by transgender passengers, CATSA's approach to same-sex screening and how best to communicate with transgender passengers. Next steps will involve ongoing dialogue and joint development of training materials.

### **Helping children with autism through security**

CATSA proudly participated in three events aimed at helping children with autism familiarize themselves with the



airport experience: Canucks for Autism at Vancouver International Airport; Children First at Montreal-Trudeau; and the Navigators Program at Calgary International Airport. Individuals with Autism Spectrum Disorder can be anxious in new or unfamiliar situations and often have difficulty communicating. These events give hundreds of children with autism and their families the opportunity to experience the airport environment and become aware of the various

processes involved in air travel – from curb to gate – so that flying is not only an option for these families but also a pleasant experience.

### Intercepted items for a good cause

Knives, tools and others items intercepted at Winnipeg and Montreal airports are being given a second life for the benefit of people in need.

In Montreal, thousands of intercepted items are donated each month to Maison Victor-Gadbois, a palliative care home for cancer patients. The items are then offered to the public in exchange for donations at displays set up at malls and festivals, raising \$50,000 annually for this very worthy cause.

In Winnipeg, the intercepted items are donated to Habitat for Humanity, an organization that builds affordable housing and promotes homeownership. The items are then sold at their ReStore. The revenues from these sales cover the organization’s administrative costs, thereby enabling all personal and corporate donations to go directly to the construction of affordable homes. CATSA donated 1,100 pounds of items that generated \$15,000.



## Lost items at checkpoints reunited with passengers

As the only security screening authority that possesses Boarding Pass Security System, coupled with networked X-ray systems, and closed captioned television cameras, CATSA leverages technologies that were originally designed for security screening purposes to provide benefits to passengers and assist them in locating items that are lost or left behind at the checkpoint. In 2015/16 alone, CATSA reunited 3,200 items that were lost or left behind at the checkpoint with passengers.

# WHAT PASSENGERS ARE SAYING

## Positive Feedback

### Vancouver

I had the opportunity to meet Ravindra at Vancouver airport. It was such a pleasure to be greeted and guided by someone as warm-hearted and professional as he was! His fluency in French, his listening and communication skills with French passengers reassured me and I thank him for it. His enthusiasm for the French language is apparent; I hope that he will benefit from it throughout his career.

### Edmonton

I flew out on the afternoon of December 20, and I have never seen the security line that long. I have also never seen it move that quickly – kudos to the security staff for getting those huge numbers

through the lines, through the security check and on to their flights.

### Ottawa

I cannot put into words how amazing William is at his job. I had very complicated carry-on baggage, with lots of delicate and important items. He was the most respectful and courteous officer I have met. He asked permission for everything he did, handled my items with such care and respect, and worked hard to piece everything together after the search. I have never been treated with such dignity. He smiled a lot and was never frustrated, impatient, or demanding. I actually left security happier than when I first got in the line!



## Tweets

### Charlottetown

Hats off to @catsa\_gc at @flyYYG for an autism-friendly security screening: friendly, well-trained staff. Soooo much easier.

### Toronto-Pearson

@TorontoPearson T1 transborder @catsa\_gc config w/ Nexus in centre gives much better, faster #customerExperience

### Montreal

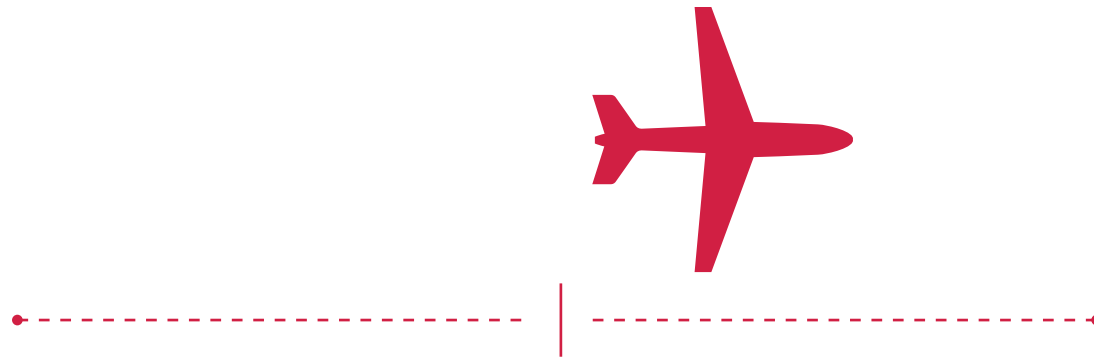
@aerportsMTL @catsa\_gc @SunwingVacay smooth sailing through security and boarding, a well-oiled machine. Good start to our vacay, well done!

# HOLD BAGGAGE SCREENING

## Key Accomplishments

One of CATSA's top priorities continues to be the life-cycle management of its HBS system. The ten-year HBS Recapitalization Program that began in 2011, will see CATSA upgrade its systems nation-wide and migrate from a five-level screening process to a three-level process, while maintaining international equivalency. The Program supports the joint Canada-U.S. *Beyond the Border Action Plan*, which will eliminate the need for duplicate screening and facilitate travel for passengers departing from Canada and transiting through U.S. airports.

The Program encompasses 32 airports and is comprised of 45 projects.



As CATSA passes the halfway point of this large-scale project, implementation is well underway. Initial deployment focused on those Canadian airports with U.S. pre-clearance facilities. CATSA works with all stakeholders to ensure that the deployment schedule corresponds to resource availability at airports to meet the present and future needs of airports.

As of March 2016, of the 45 projects, 13 have been completed and 16 are currently underway. CATSA is confident that the Program will continue to proceed as planned to be completed in 2020.

# NON-PASSENGER SCREENING

## Key Accomplishments

In accordance with TC requirements, CATSA must screen non-passengers accessing restricted areas of airports. These people include CATSA personnel, 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 explosives-detection equipment. In 2013, CATSA significantly enhanced its NPS activities to acknowledge more stringent TC requirements stemming from international obligations. In 2014/15, CATSA refined the application of these activities to recognize specific airport operations

and configurations, by enhancing a screening program for vehicles entering restricted areas of the aerodrome at select airports.

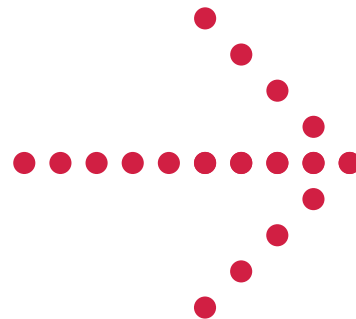
In 2015/16, the screening program for vehicles was extended, with improved coverage at Canada's eight busiest airports and other select airports. This was achieved with the introduction of

new technologies and accompanied by more robust screening procedures, resulting in an increase in the number of non-passengers screened. Likewise, the screening programs for terminals and aircraft were similarly enhanced and extended across airports nation-wide.

# RESTRICTED AREA IDENTITY CARD

## Key Accomplishments

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 accessing restricted areas of airports. In 2015/16, CATSA invested in improving the efficiency of the RAIC enrolment system, deployed new handheld biometric readers and added three airports to the RAIC system. CATSA will continue to work with airport authorities to deliver and maintain an effective, efficient, and reliable biometric credential management system across the country.





# CORPORATE SERVICES

## Deficit Reduction Action Plan (DRAP)

As part of the DRAP, CATSA worked with TC on new proposals and identified further cost reductions of \$19.2M annually in operating expenditures. In July 2015, these proposals were approved by the Government of Canada and have been fully implemented since then.

These cost reductions coupled with an earlier \$73.3M annual reduction, brings the total reduction to \$92.5M annually. Reductions were focused on Corporate Services and back-office support. These changes do not impact CATSA's front-line security mandate.

## Business Continuity Planning

In 2015/16, CATSA completed a review of its Strategic Emergency Management and Business Continuity Plans. In addition, CATSA conducted exercises to ensure system readiness and gauged its preparedness to respond to situations that may affect CATSA's ability to provide mandated services.

## Stakeholder Relationship Program

In 2015/16, CATSA continued to build on its relationship with key stakeholders, such as airport authorities, air carriers and respective associations, through a number of initiatives. For instance, senior CATSA executives made visits to Canada's eight busiest airports and select major airports. Airport and airline officials expressed strong support about both the innovative and collaborative aspects of CATSA Plus. Various aspects of CATSA Plus were also presented at both national and international meetings to industry stakeholders and were extremely well-received.

During the 2015/16 year, CATSA responded to multiple requests from federal and international partners, sharing expertise in screening officer training and implementation of aviation security screening requirements, demonstrating CATSA's advanced training expertise.

The training assistance offered by CATSA for example, included requests for material and documents to assist a third-party's procurement planning activities for X-ray and video surveillance equipment, enrolment of third-party employees in the three-day non-certification Screening Officer Foundations course typically provided to internal CATSA employees, and having one of CATSA's Learning and Performance Advisors at a third-party's headquarters for a day, to provide an overview of Hand Held Metal Detector, WTMD, and X-ray technologies.

## Training

Ensuring that screening officers are appropriately trained for the situations they will encounter at checkpoints is an important element in CATSA's ability to deliver on its mandate. To this end, CATSA works with screening contractors throughout the year on a number of training programs for over 8,000 certified screening personnel, such as screening officers, front-line screening supervisors and training representatives.

Through the development of e-learning modules, recurrent learning modules, in-service exercises, instructor-led training, refresher exercises, skills assessment exercises, and exams, CATSA develops timely, relevant and specialized training to support ten certification programs. In addition to certification courses, CATSA develops training for new procedures and technologies, screening equipment upgrades, trials and pilot projects.

To ensure that front-line screening management possesses the knowledge and skills to support screening officers in carrying out their duties, CATSA develops training for front-line screening supervisors. In 2015/16, the Supervisor Orientation Program was launched, followed by additional phases deployed across the country. This Program consists of three phases, ranging from day-to-day management of the checkpoint, addressing and resolving situations that take place, to overseeing, monitoring and directing performance.

CATSA reviews existing training materials periodically to ensure that screening officers are well-equipped to deal with the challenges of the environment they are working in and that the training they undertake is not obsolete.

For example, the X-ray image analysis capabilities of existing screening officers were reviewed in 2015/16, which identified the need for additional training in 2016/17. For high-performing screening officers, their abilities are nonetheless further improved upon to ensure they are well-aligned to operational updates.



## Performance

Effectiveness					
Given the sensitivity of this performance category and its associated results, this data cannot be included in a public document.					
Efficiency					
Performance measure	Target	2013/14	2014/15	2015/16	Comments
Screening officer attrition levels	20.0%	9.8%	13.8%	14.7%	Screening officer attrition is comprised mostly of resignations due to misalignment between job function and screening officer candidate career development, and screening officer candidates unable to obtain the minimum standards.
<p><i>Definition:</i> The percentage of screening officers at the eight busiest airports, who voluntarily resigned, died, or retired. Adjustments were made to the calculation in 2014/15 to better reflect screening officer attrition at a national level. The new calculation only applies to 2014/15 figures and forward, therefore, year-over-year comparisons should be viewed in this context.</p>					
PBS optimal throughput	N/A*	155	155	159	CATSA gained efficiencies in the screening process, which resulted in an increase in PBS optimal throughput.
<p><i>Definition:</i> The number of passengers screened per hour per line at the eight busiest airports' PBS checkpoints.</p> <p>* CATSA does not have a target for optimal throughput as it constitutes a benchmark, which reflects what CATSA is capable of achieving under optimal circumstances when the demand is sufficient.</p>					

## Consistency

Performance measure	Target	2013/14	2014/15	2015/16	Comments
<b>Security screening compliance</b>	<b>98.0%</b>	<b>94.3%</b>	<b>93.8%</b>	<b>95.3%</b>	A positive trend in security screening compliance has been observed, with improvements seen each quarter. CATSA will continue to work with screening contractors to achieve sustained continuous improvement in the year ahead.
<p><i>Definition:</i> 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.</p>					
<b>National Training and Certification Program (NTCP) success rate</b>	<b>90.0%</b>	<b>90.0%</b>	<b>90.6%</b>	<b>89.1%</b>	The NTCP success rate dropped by 1.5% and slipped slightly below target, but remains consistent with previous years.
<p><i>Definition:</i> 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.</p>					

## In the Public Interest

Performance measure	Target	2013/14	2014/15	2015/16	Comments
<b>Confidence in security screening</b>	<b>75.0%</b>	<b>73.8%</b>	<b>74.1%</b>	<b>75.3%</b>	Confidence continues to increase overall and surpassed the target of 75% in 2015/16.
<i>Definition:</i> The percentage of passengers, who express high confidence in CATSA security screening. Calculated from results of completed surveys at select busiest airports. High confidence is defined as answering 5, 6 or 7 on a 7-point scale survey questionnaire.					
<b>Satisfaction with overall screening experience</b>	<b>85.0%</b>	<b>82.0%</b>	<b>81.6%</b>	<b>82.9%</b>	Overall satisfaction has remained stable for the past three years.
<i>Definition:</i> The percentage of passengers surveyed, who express satisfaction with their overall experience with security screening at select busiest airports.					
<b>Customer Satisfaction Index</b>	<b>85.0%</b>	<b>80.3%</b>	<b>80.1%</b>	<b>81.1%</b>	Satisfaction with speed of being processed has stabilized after trending downward since 2012/13. All other measures in the Index have remained stable.
<i>Definition:</i> The Customer Satisfaction Index is a measure of satisfaction with the following key customer service criteria: speed of being processed, courtesy and respect, professionalism, and help provided by screening officers. Results are based on quarterly survey data collected from the eight busiest airports in Canada.					

# LOOKING AHEAD



## GROWING PASSENGER VOLUMES AND INCREASING WAIT TIMES

In 2010/11, CATSA screened approximately 47.7 million passengers at designated airports. By the end of 2016/17, CATSA is forecasted to screen 59.7 million passengers. By 2020/21, passenger volumes are expected to reach approximately 66.2 million. CATSA and TC are working closely to ensure the interests of the travelling public are considered, in the face of this growing trend.

While Budget 2010 provided ongoing funding for CATSA, it did not provide for increases in passenger volume

or screening contractor billing rates. Therefore, CATSA's ability to purchase screening hours has declined. This decline in purchasing power has an impact on wait time performance. In April 2015, the Government of Canada approved a one-year supplemental funding, which has allowed CATSA to achieve a Wait Time Service Level similar to 2014/15, delivering a service level of approximately 89% of passengers screened in 15 minutes or less on average at Canada's eight busiest airports.

Building on last year's business case, in March 2016, the Government approved supplemental funding for CATSA to continue offering a level of service in 2016/17 similar to 2015/16. This funding is for 2016/17 only and after this fiscal year, absent of a long-term funding strategy, CATSA's reference levels will revert to Budget 2010 levels.

CATSA will be working with TC on an operationally effective long-term funding strategy to address wait time pressures.

## TRANSFORMING THE CUSTOMER EXPERIENCE THROUGH TANGIBLE INNOVATIONS

CATSA's success has been built in large part on a culture of innovation and continuous improvement, assessing and testing new technologies and processes, and conducting trials at airports. CATSA is now in a position

to leverage the successful results of recent passenger-centric screening equipment and process change pilot projects and trials, and bring them to the forefront of its operations in the form of the CATSA Plus screening concept.

At its core, CATSA Plus involves replacing standard screening lines with higher-performance ones. CATSA Plus comprises a collection of modular features that can be assembled into "Full" and "Tailored" packages adap-

table to different airport environments, depending on checkpoint size, space and passenger volumes. The goal of CATSA Plus is to transform the customer experience through tangible innovations to the screening process, while increasing passenger flow and enhancing security effectiveness. The new facilities at the Calgary International Airport, which are planned to open in fall 2016, will provide the first opportunity to demonstrate the full CATSA Plus screening concept in a brand new checkpoint, integrating all successful pilots and trials at one location with a large, spacious checkpoint.

The issue of reaching maximum screening capacity with the currently deployed screening equipment and checkpoint footprints has emerged as one of the top priorities of airports, particularly at Canada's largest, including Toronto Pearson, Vancouver, and Calgary. Following recent introductions to the CATSA Plus screening concept, airport authorities see CATSA Plus as the way to increase screening capacity

and the flow of passengers — to address the screening “bottleneck.”

As such, the deployment of the CATSA Plus screening concept, presents a unique opportunity for CATSA and airport authorities to collaborate on a mutual goal of enhancing the passenger experience. CATSA intends to actively collaborate with airport authorities to review the characteristics of current checkpoints, and to explore feasible modifications and re-configuration options to determine which CATSA Plus features can be deployed. Ultimately, CATSA's goal is to have all major airports participate in the CATSA Plus initiative, in order for as many passengers as possible to reap the benefits. These airports handle approximately 95% of all commercial passenger traffic in Canada.

As the CATSA Plus deployment initiative starts to wind down in about five years, the majority of CATSA's current PBS equipment (e.g. X-rays, FBS units,

and WTMDs) will be reaching their end-of-life phase, and will need to be replaced. This will serve as the enabling function to help CATSA prepare for the future and the introduction of next-generation PBS equipment.

Potential advancements in screening technology and processes offer the possibility to transform the screening process by further enhancing the customer experience for passengers — such as eliminating the need to divest prior to screening — while maintaining and even improving screening effectiveness. As these process changes are expected to be evolutionary, as opposed to revolutionary, CATSA will be able to make its investments for the long term, by incorporating next-generation screening equipment and processes to the CATSA Plus screening lines, in partnership with airport authorities and in collaboration with TC and government stakeholders.



# AIRPORT SCREENING SERVICES AGREEMENT (ASSA) RENEWAL

CATSA operates under a third-party business model. It realizes its mandate by contracting the delivery of screening services to private screening contractors. These screening contractors are responsible for employing the

screening workforce and performing screening operations at designated airports in Canada.

The first five-year term of CATSA's ASSA is set to expire on March 31,

2017. Following an analysis of renewal options, and based on the operational success of the current service delivery model, CATSA has decided to renew the four ASSA contracts for a five-year term, starting on April 1, 2017.

A renewal of the contracts provides for a balanced cost reduction between the regions, along with the following benefits:

## Security

- Represents a significant investment in improving screening contractor effectiveness through more and improved training of screening officers, and an increase in screening contractor supervisor presence at select airports;
- Balances the service delivery models for each region in terms of training and supervisory personnel, without prescribing a model; and
- Provides flexibility in how the screening contractor delivers the service by region and airport.

## Value for money

- Produces an overall reduction in the cost of the ASSA;
- Demonstrates CATSA's ongoing commitment in achieving value for money for Canadians;
- Provides an opportunity for a meaningful reinvestment of savings into additional screening hours at select airports, based on priority; and
- Contains costs in future years.

## COST RECOVERY

In fall 2014, with TC's support, CATSA entered into a Supplemental Screening Trial Agreement with the GTAA, which allowed for the purchase of additional screening services. The GTAA expressed a desire to continue purchasing additional screening services past March 31, 2016. In 2016, TC expressed support of an extension until March 2017. CATSA

will continue to work with TC and the GTAA to refine the cost recovery framework.

On July 28, 2015, the Government of Canada announced new regulations to allow airports that do not have access to security screening services from CATSA, to obtain them on a cost recovery basis. The new regulations

allow smaller, non-designated airports to invest in screening services, in order to provide them to passengers with connecting flights to larger airports, while enhancing the security of the aviation system in Canada. CATSA continues to work with TC and interested airports in creating a feasible solution.

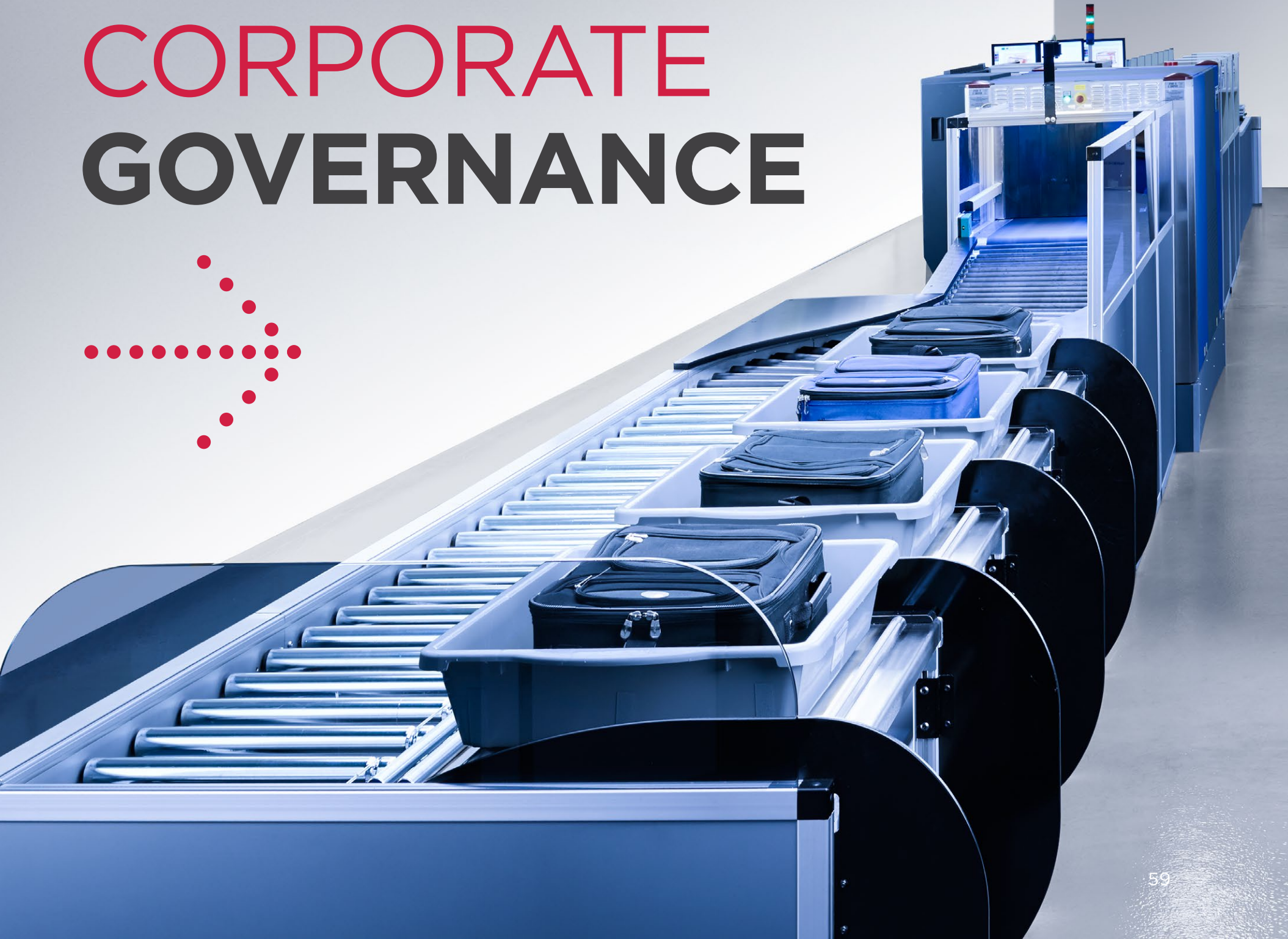
## ENHANCED NPS

Budget 2014 provided three-year funding for CATSA's enhanced NPS program to meet TC requirements. CATSA is working closely with TC and stakeholders to build on the success it

has achieved over the past two years. The organization will fully maximize the experience gained, in order to ensure the continued implementation of the program remains efficient

and effective. As the enhanced NPS funding envelope ends after 2016/17, CATSA is awaiting further direction from the Government of Canada on how to proceed.

# CORPORATE GOVERNANCE



As of March 31, 2016, CATSA's BoD included:<sup>4</sup>

-----  
Lloyd McCoomb, Chair

Paul Benoit (nominated by Canadian Airports Council)

Melissa Coulson

Jean-Marc Dufour

Patricia Kennedy (nominated by Air Transport Association of Canada)

Dora Koop

William Restall (nominated by Canadian Airports Council)

Allan Rowe (nominated by National Airlines Council of Canada)

Raf Souccar

Peter Wallis

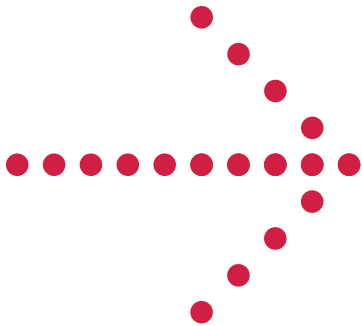
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Read Board members' biographies [here](#). Patricia Kennedy was appointed to the BoD on March 26, 2015 for a three-year term, replacing William Deluce. Raf Souccar was appointed to the BoD on June 18, 2015 for a three-year term, replacing Gene McLean.

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

The BoD has a number of ongoing responsibilities, including:

- Drafting, amending or repealing corporate by-laws (*Financial Administration Act*, s.114);
- Reviewing and approving management's succession plan for Senior Management;
- Approving CATSA's Corporate Plan for recommendation to the Minister;
- Ensuring the fulfillment of the organization's mandate; and
- Monitoring corporate performance;
- Establishing the organization's strategic direction through its annual Corporate Plan, and safeguarding the resources of the organization by approving annual reports, capital and operating budgets, and major new project proposals.
- Approving the President and CEO's objectives for the year and evaluating his/her performance (*CATSA Act*, s.17);
- Ensuring the principal risks of CATSA's business are identified and that appropriate systems to manage these risks have been implemented;

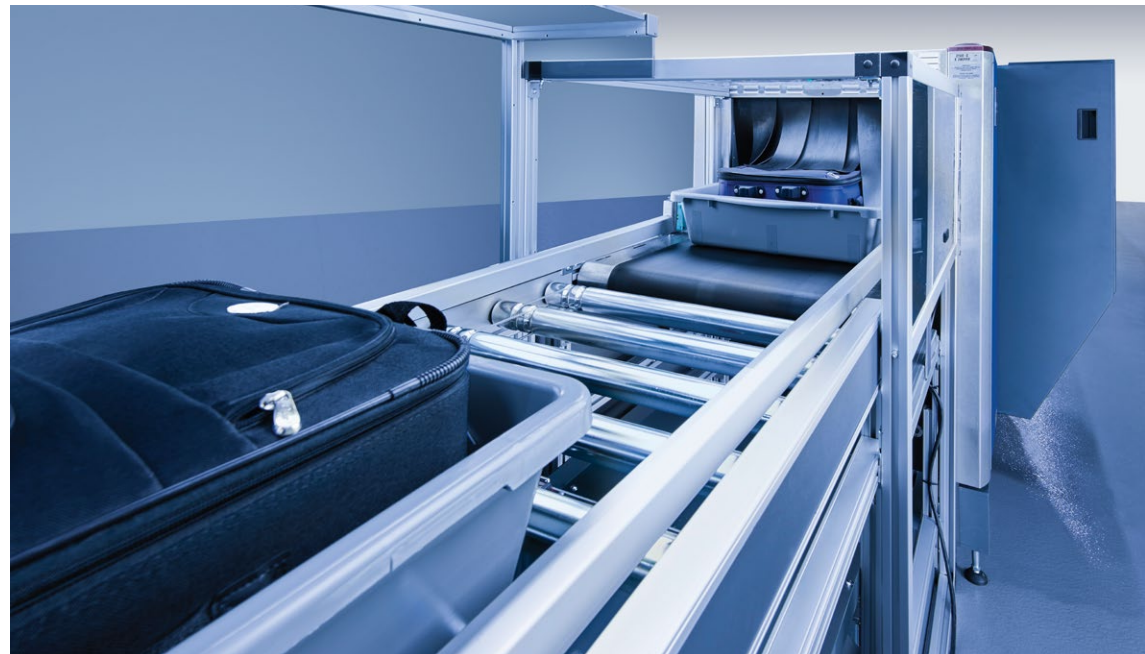
<sup>4</sup> There is one vacant seat in the BoD. CATSA and TC are working closely on the appointment process.



In 2015/16, the BoD continued to oversee CATSA's strategic direction, through the monitoring of the operational and financial performance of the organization, and compliance with CATSA's Corporate Plan, as well as the organization's quarterly financial information. The BoD provided direction to CATSA's Senior Management concerning key risks faced by the organization and maintained an active role in monitoring CATSA's corporate governance practices. The BoD also oversaw key program initiatives, including a number of

continuous improvement initiatives, in order to promote efficient and effective passenger screening. The BoD continued to oversee CATSA's ten-year HBS Recapitalization Program, with the support of TC, and the ongoing implementation of the enhanced NPS program.

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



# BOARD REMUNERATION AND MEETING ATTENDANCE

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

Board Member	Board Retainer (A)	Per Diem (B)	Total Remuneration (A+B)
Lloyd McCoomb (Chair) <sup>1</sup>	\$ 10,800	\$ 19,740	\$ 30,540
Paul Benoit	\$ 5,400	\$ 8,385	\$ 13,785
Melissa Coulson	\$ 5,400	\$ 8,132	\$ 13,532
Jean-Marc Dufour	\$ 5,400	\$ 9,165	\$ 14,565
Patricia Kennedy	\$ 5,483 <sup>8</sup>	\$ 12,675	\$ 18,158
Dora Koop <sup>2</sup>	\$ 5,400	\$ 12,675	\$ 18,075
William Restall	\$ 5,400	\$ 12,870	\$ 18,270
Allan Rowe <sup>3</sup>	\$ 5,400	\$ 11,895	\$ 17,295
Raf Souccar <sup>5</sup>	\$ 4,237	\$ 9,555	\$ 13,792
Peter Wallis <sup>4</sup>	\$ 5,400	\$ 10,335	\$ 15,735
Joanne Whittle <sup>6</sup>	\$ 1,350	\$ 1,755	\$ 3,105
<b>TOTALS</b>	<b>\$ 59,670</b>	<b>\$ 117,182</b>	<b>\$ 176,852</b>

Total remuneration (annual retainer and per diem) paid to Directors and the Chair was \$176,852 in 2015/16, compared to \$167,014 in 2014/15.

# BOARD AND COMMITTEES ATTENDANCE

Board and committees 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	Committee Meetings		
		Governance, Human Resources & Pension (GHRP)	Audit	Strategy
Lloyd McCoomb (Chair) <sup>1</sup>	10/11	4/4	7/7	6/6
Paul Benoit	10/11	3/4	3/3 <sup>7</sup>	4/6
Melissa Coulson	10/11	-	7/7	1/1 <sup>7</sup>
Jean-Marc Dufour	11/11	4/4	3/3 <sup>7</sup>	2/2 <sup>7</sup>
Patricia Kennedy	11/11	2/2 <sup>7</sup>	7/7	6/6
Dora Koop <sup>2</sup>	11/11	4/4	7/7	2/2 <sup>7</sup>
William Restall	11/11	4/4	5/5 <sup>7</sup>	6/6
Allan Rowe <sup>3</sup>	11/11	-	7/7	6/6
Raf Souccar <sup>5</sup>	9/9	2/2	4/4 <sup>7</sup>	5/5
Peter Wallis <sup>4</sup>	11/11	-	7/7	6/6
Joanne Whittle <sup>6</sup>	2/2	1/1	-	-

<sup>1</sup> Ex-officio member of all Board committees

<sup>2</sup> Chairperson of the GHRP Committee

<sup>3</sup> Chairperson of the Audit Committee

<sup>4</sup> Chairperson of the Strategy Committee

<sup>5</sup> Term began on June 18, 2015, 100% attendance thereafter

<sup>6</sup> Term ended on June 30, 2015

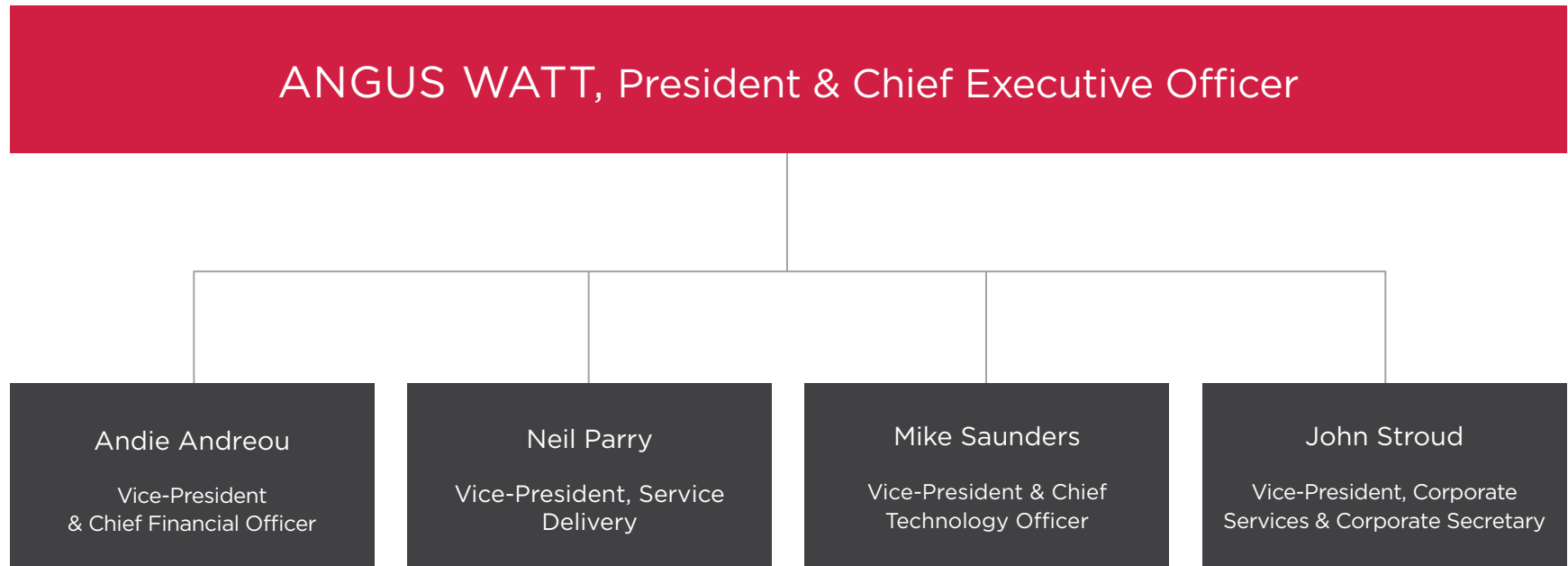
<sup>7</sup> Director prepared and attended supplemental Board/Committee meeting or teleconference

related to work beyond his/her permanent Committee membership roles. Attendance could be as an observer.

<sup>8</sup> A portion of this expense i.e., \$83.00 is related to the previous fiscal year.

# CATSA MANAGEMENT TEAM

CATSA is led by a Senior Management Committee, headed by Angus Watt, the President and Chief Executive Officer. The SMC includes four Vice-Presidents, each representing a specific portfolio.



For more information on CATSA's SMC, including profiles, please visit the [Executive Team](#) section of CATSA's website.



# DISCLOSURE



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

CATSA strives to offer the best possible experience to the hundreds of thousands of passengers screened every day at its checkpoints. Serving them in the official language of their choice is not only viewed as an obligation under the *Official Languages Act* but as a key component of providing excellent customer service. As such, CATSA is dedicated to working in both official languages in designated bilingual airports and in its administrative offices.

The commitment to offer bilingual services at screening checkpoints is reflected in all facets of CATSA's service delivery model – from contracting to training to performance measurement. Screening contractors must have sufficient bilingual personnel on duty to provide service of equal quality in English and French. In training, screening officers learn about the *Official Languages Act*, active offer of service and the obligation to serve passengers in the official language of their choice, throughout their screening

process. They are also informed of the consequences, should they fail to comply with these requirements. And to confirm those obligations are met, CATSA performs regular observations at the checkpoints.

In an effort to continuously improve, CATSA surveys passengers across the country quarterly to verify if they were served in their preferred language. Survey results, along with compliance measurement reports and complaints, are analyzed and used to improve front-line screening performance.

In 2015/16, CATSA worked in collaboration with the Office of the Commissioner of Official Languages (OCOL), which conducted an audit of its services to the travelling public at screening checkpoints. OCOL's report and recommendations are expected in early 2016/17, and will be reviewed to enhance our official languages framework and service delivery.

CATSA also finalized its decennial assessment of the demand for services in both official languages at our

screening checkpoints. The results ensure CATSA continues to provide screening services to passengers in both official languages at airports with sufficient demand.

CATSA also remains committed to promoting a bilingual work environment. As in previous years, various activities were held at CATSA in 2015/16 to mark *Les Rendez-vous de la Francophonie*, *Journée internationale de la Francophonie* and *Linguistic Duality Day*. CATSA employees across the country were surveyed in October 2015 to measure CATSA's performance in creating a workplace, which is conducive to the use of both official languages. Results show that since 2012 – when they were last surveyed – Francophone employees are much more likely to feel free to speak French with their manager. Almost all Francophone employees also indicated that the materials and tools provided for their work are available in the official language of their choice.

## **CATSA and the *Privacy Act***

In 2011, the Office of the Privacy Commissioner (OPC) conducted an audit of CATSA's personal information management practices and some screening technologies. In response, CATSA has addressed all 12 of the OPC recommendations.

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

## **Report on Access to Information Act 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, 2015 to March 31, 2016, CATSA received 27 requests under the *Access to Information Act*. When added to the five outstanding requests from the previous year, CATSA processed 32 requests. Of these, 25 were completed within the fiscal year and seven were carried forward to 2016/17.

In addition, from April 1, 2015 to March 31, 2016, CATSA received 15 consultations under the *Access to Information Act* from other federal departments (regarding information about CATSA that appeared in records they were reviewing). 14 requests were completed within the fiscal year and one request was carried forward to 2016/17.

CATSA received eight informal Access to Information requests for ten packages that were previously released.

For the same reporting period, CATSA received four requests under the *Privacy Act*, all of which were completed within the fiscal year.

## **Employment Equity Act and Canadian Multiculturalism Act**

CATSA produces and submits an annual report on its fulfillment of the *Employment Equity Act* and the *Canadian Multiculturalism Act*. To guide CATSA in the identification and elimination of barriers to equal employment, CATSA is updating its three-year employment equity plan. Work was postponed in 2015/16 due to workforce adjustments and will resume in 2016/17.

## **Environmental Impact Assessment Act**

CATSA has not engaged in any projects during the current reporting year that has, or may have had an environmental impact, as per the *Environmental Impact Assessment Act*.

## **Public Servants Disclosure Protection Act**

CATSA is subject to the *Public Servants 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 2015/16, CATSA did not receive any allegations of wrongdoing, inquiries or disclosures under the PSDPA.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE YEAR ENDED  
MARCH 31, 2016**



Management's Discussion and Analysis (MD&A) outlines CATSA's financial results and operational changes for the year ended March 31, 2016. This MD&A should be read in conjunction with CATSA's audited annual financial statements and accompanying notes for the year ended March 31, 2016, 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 9, 2016, 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 this report, management applies the materiality principle as

guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the economic decisions of CATSA's stakeholders.

# ECONOMIC ENVIRONMENT

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

## ECONOMIC OUTLOOK

Global economic growth decreased from 3.4% in 2014 to an estimated 3.1% in 2015. It is expected to decrease to 3.0% in 2016 before increasing to 3.4% in 2017 and 3.6% in 2018. In Canada, the economy grew by 1.2% in 2015, and is projected to grow by 1.7% in 2016 and 2.3% in 2017. It is expected that growth will slow to 2.0% in 2018.<sup>1</sup>

## PASSENGER GROWTH AND SCREENING CONTRACTOR BILLING RATES

Economic growth generally leads to increased passenger travel. Recent projections indicate that the number of enplaned passengers at Canadian airports will increase by 3.0%<sup>2</sup> in 2016 compared to 2015, and is expected to grow in each of the next 5 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 continue to increase annually over the remaining term of the current ASSAs that expire on March 31, 2017, and their five-year renewal term. This puts further pressure on CATSA's budget for screening hours.

## FOREIGN EXCHANGE

The Canadian dollar has continued to weaken in 2015/16, with an average U.S.-Canada exchange rate of 1.31<sup>3</sup> for the year ended March 31, 2016, compared to an average exchange rate of 1.14<sup>3</sup> for the year ended March 31, 2015. Economic forecasts show that the current rates are expected to continue at this level into 2016/17 and beyond.

CATSA is exposed to foreign exchange risk, as it plans to purchase a significant amount of equipment and services

<sup>1</sup> Bank of Canada, *Monetary Policy Report*, April 2016.

<sup>2</sup> SNC Lavalin Inc., *March 2016, Air Passenger Traffic Forecasts for CATSA Designated Airports*.

<sup>3</sup> Bank of Canada, *Monthly Average Exchange Rates: 10-Year Lookup*.

from vendors in the U.S. in the coming years. A further weakening of the Canadian dollar could result in the

cost of U.S. denominated transactions exceeding budgeted amounts. CATSA continues to monitor the fluctuations

of the U.S.-Canada exchange rate in order to assess and respond to the impact on its funding requirements.

## GOVERNMENT FUNDING

CATSA, as an agent Crown corporation, is funded by parliamentary appropriations and accountable to the Parliament of Canada through the Minister of Transport. As a consequence, CATSA's financial plan is prepared in accordance with the resources it is assigned by the Government of Canada and as approved by Parliament.

Since 2009, CATSA has been subject to several mandatory operational and organizational reviews. In 2011/12, CATSA submitted savings proposals as part of the Deficit Reduction Action Plan (DRAP). The Government of Canada approved the majority of these proposals, resulting in annual savings of \$32.1M starting in 2013/14. In 2014/15, CATSA worked with TC on new proposals in order to achieve its revised savings commitment of \$51.3M (10% of its review base). In July 2015,

CATSA received approval from the Government of Canada to proceed with the implementation of these proposals, which included a workforce adjustment. The proposals have since been implemented, resulting in realized savings of \$12.6M in 2015/16, with full-year annual savings of \$19.2M starting in 2016/17. CATSA will have generated total annual savings of \$92.4M stemming from these reviews.

CATSA is not fully funded for passenger growth or increases in screening contractor billing rates. Consequently, without additional funding, CATSA will not be able to maintain the service level it achieved in previous years, despite significant screening efficiency improvements. In 2015/16, CATSA received one-year incremental funding to achieve a wait time service level of 85% of passengers

screened within 15 minutes at Canada's eight busiest airports. CATSA exceeded its target, delivering a service level of approximately 89%. In March 2016, the Government of Canada approved additional funding for CATSA to continue offering a level of service in 2016/17 similar to 2015/16.

Through Budget 2014, CATSA was granted three-year incremental funding, for the period from 2014/15 to 2016/17, for the delivery of the enhanced NPS program. CATSA has met its overall objectives to date with respect to this program.

CATSA is working with TC to develop long-term funding strategies for unfunded passenger growth and screening contractor billing rate increases, as well as for the enhanced NPS program.

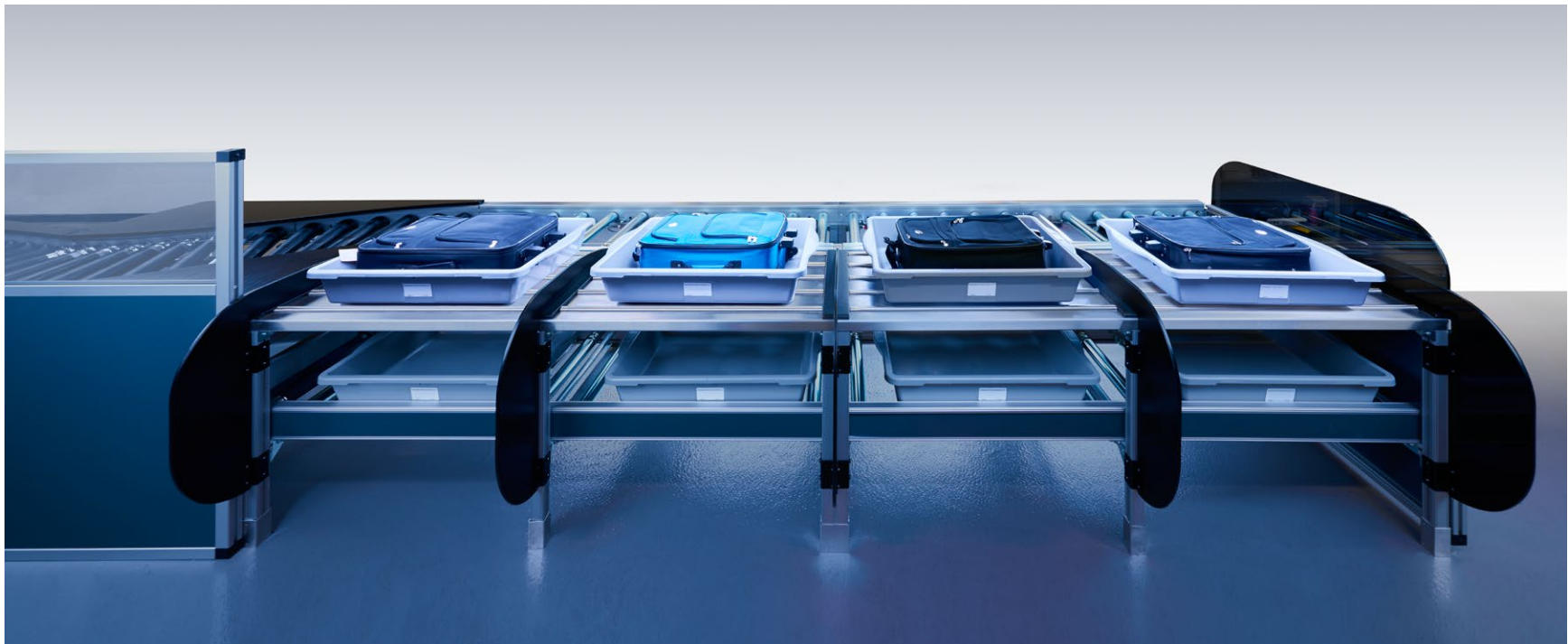
# INTERNAL CONTROLS

Management is responsible for establishing and maintaining a system of internal control over financial reporting. An integral part of this responsibility is CATSA's internal control certification program, which involves a periodic 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 updates on management's work with respect to enhancing internal controls and monitors progress of management's action plans.





# ANALYSIS OF FINANCIAL RESULTS

## STATEMENT OF COMPREHENSIVE INCOME

The following section provides information on key variances within the Statement of Comprehensive Income for 2015/16 compared to 2014/15.

<b>Key Financial Highlights - Statement of Comprehensive Income</b>				
<b>(Thousands of Canadian dollars)</b>	<b>2015/16</b>	<b>2014/15</b>	<b>\$ Variance</b>	<b>% Variance</b>
<b>Expenses<sup>1</sup></b>				
Screening services and other related costs	\$ 442,348	\$ 404,650	\$ 37,698	9.3%
Equipment operating and maintenance	42,790	46,942	(4,152)	(8.8%)
Program support and corporate services	81,834	77,191	4,643	6.0%
Depreciation and amortization	54,084	54,465	(381)	(0.7%)
<b>Total expenses</b>	<b>\$ 621,056</b>	<b>\$ 583,248</b>	<b>\$ 37,808</b>	<b>6.5%</b>
<b>Other expenses</b>	<b>3,114</b>	<b>1,582</b>	<b>1,532</b>	<b>96.8%</b>
<b>Financial performance before revenue and government funding</b>	<b>\$ 624,170</b>	<b>\$ 584,830</b>	<b>\$ 39,340</b>	<b>6.7%</b>
<b>Revenue</b>	<b>4,741</b>	<b>1,474</b>	<b>3,267</b>	<b>221.6%</b>
<b>Government funding</b>				
Parliamentary appropriations for operating expenses	\$ 556,407	\$ 542,942	\$ 13,465	2.5%
Amortization of deferred government funding related to capital expenditures	55,504	55,029	475	0.9%
<b>Total government funding</b>	<b>\$ 611,911</b>	<b>\$ 597,971</b>	<b>\$ 13,940</b>	<b>2.3%</b>
<b>Financial performance</b>	<b>\$ (7,518)</b>	<b>\$ 14,615</b>	<b>\$ (22,133)</b>	<b>(151.4%)</b>
<b>Other comprehensive loss</b>	<b>\$ (5,060)</b>	<b>\$ (14,373)</b>	<b>\$ (9,313)</b>	<b>(64.8%)</b>
<b>Total comprehensive (loss) income</b>	<b>\$ (12,578)</b>	<b>\$ 242</b>	<b>\$ (12,820)</b>	<b>N/M</b>

<sup>1</sup> The Statement of Comprehensive Income presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 11 of the audited annual financial statements for the year ended March 31, 2016.

N/M - not meaningful

## 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 expenditures for CATSA, representing approximately 76.8% of total expenses (excluding depreciation and amortization) in fiscal year 2015/16. These expenses consist of payments to screening contractors for the delivery of services performed by screening officers, as well as for screening officer training and recurrent learning requirements. Key variables impacting these costs include the number of screening hours purchased and billing rates.

The number of screening hours purchased is driven by passenger volume, as well as new or modified security regulations arising from evolving threats and security incidents. Regulation changes often result in changes to 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 by \$37.7M (9.3%) in 2015/16. This is primarily due to increases in screening hours purchased across all programs for a total incremental cost of approximately \$24.0M, coupled with annual contractual billing rate increases for a total incremental cost of approximately \$11.0M.

The increase in screening hours purchased is mainly attributable to the ongoing implementation of vehicle screening at Canada's highest risk airports, which commenced in November 2014, as part of the enhanced NPS program. This included the hiring of additional screening officers in preparation for the implementation of the full program in 2016/17. As a requirement to maintain their qualifications, the new screening officers were deployed at PBS checkpoints, pending the completion of the

permanent vehicle screening facilities. The increase in PBS hours enabled CATSA to allocate its screening budget more efficiently over the course of the fiscal year and exceed its targeted wait time service levels despite higher than anticipated passenger volumes. The remainder of the increase is primarily due to additional screening hours purchased as part of the trial agreement with the GTAA, and to support the three-level HBS system transition at certain airports.

## Equipment Operating and Maintenance

Equipment operating and maintenance consist of costs associated with maintenance and support services for CATSA's equipment and systems, including the usage and warehousing of Explosives Detection System (EDS) spare parts. It also includes the cost of biometric security cards purchased, and costs associated with training and certification of equipment maintenance technologists for new technology deployed at airports across Canada.

Equipment operating and maintenance costs decreased by \$4.2M (8.8%) in 2015/16. The decrease is primarily due to the termination of the funding

agreements for conveyor maintenance and support services at Canada's eight busiest airports, which took effect October 1, 2015, as part of the DRAP. The reduction is also due to the in-sourcing of BPSS equipment maintenance services and lower training requirements for equipment maintenance providers based on CATSA's capital deployment plan. These decreases are partially offset by higher costs associated with equipment maintenance contracts denominated in U.S. dollars resulting from a weaker Canadian dollar in comparison to 2014/15.

### **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 salaries and benefits, leased space at corporate headquarters and in the regions, professional services, and office and computer expenses.

Program support and corporate services increased by \$4.6M (6.0%) in 2015/16. The increase is primarily due to higher employee costs associated with CATSA's defined benefit pension

plans, which is attributable to a 75 basis point decrease in the year-over-year discount rate used to determine the current service cost. The increase is also associated with other administrative costs including professional services to support CATSA's corporate activities. These increases were partially offset by lower costs associated with a reduction in the number of staffed positions mainly due to the DRAP.

### **Other Expenses**

Other expenses consist of foreign exchange loss, write-off of property and equipment and intangible assets, impairment of property and equipment, loss on disposal of property and equipment, and finance cost.

Other expenses increased by \$1.5M (96.8%) in 2015/16. The increase is due primarily to higher foreign exchange losses related to transactions denominated in U.S. dollars, as well as higher write-offs, impairment charges and losses related to the disposal of property and equipment and intangible assets that resulted from operational decisions by management to discontinue the use of certain assets.

### **Revenue**

Revenue consists of supplemental screening services, finance income earned on cash balances, and miscellaneous income.

Revenue increased by \$3.3M (221.6%) in 2015/16. The majority of the increase relates to a full year of revenue generated from the delivery of supplemental screening services as part of the GTAA trial agreement, which commenced in October 2014.

### **Government Funding**

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

### **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.

Parliamentary appropriations for operating expenses increased by \$13.5M (2.5%) in 2015/16. The increase is primarily due to higher spending on screening services and other related costs, and program support and corporate services costs, as previously discussed. These increases are partially offset by lower equipment operation and maintenance costs and higher revenue, as previously discussed, as well as lower solvency deficit payments to the registered pension plan.

### **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 increased by \$0.5M (0.9%) in 2015/16. The increase resulted from higher write-offs, impairment charges and losses related to property and equipment and intangible assets, partially offset by lower depreciation and amortization.

### **Other Comprehensive Loss**

Other comprehensive loss consists of the net actuarial losses associated with CATSA's defined benefit plans. The decrease is due to a remeasurement loss of \$11.8M resulting from a lower return on plan assets than the rate

used in CATSA's assumptions. This decrease was partially offset by a remeasurement gain of \$6.7M on the defined benefit liability arising from the net impact of a 50 basis point decrease in the long-term rate of salary increases, and a 25 basis point decrease in the discount rate since March 31, 2015.

In 2014/15, a remeasurement gain of \$14.0M was recognized due to a higher return on plan assets than the rate used in CATSA's assumptions. Also in 2014/15, a remeasurement loss of \$28.4M was recognized on the defined benefit liability arising from a decrease in the discount rate of 75 basis points since March 31, 2014.

For further details, please refer to 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*.

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

<b>Liquidity and Capital Resources</b> (Thousands of Canadian dollars)	March 31, 2016	March 31, 2015	\$ Variance
Cash	\$ 11,227	\$ 7,981	\$ 3,246
Trade and other receivables	88,039	94,297	(6,258)
Trade and other payables	98,356	100,443	(2,087)
Current portion of provisions	711	335	376
Construction holdbacks	199	-	199
Employee benefits transfer deficiency	-	1,500	(1,500)

Cash increased by \$3.2M primarily due to the timing of disbursements to suppliers for goods and services. Trade and other receivables decreased by \$6.3M primarily due to a decrease in parliamentary appropriations receivable, partially offset by an increase in supplemental screening services receivables. Trade and other payables decreased by \$2.1M as a result of a lower number of outstanding invoices for capital purchases and screening contractors 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 screening equipment for PBS, HBS and NPS, as well as associated installation and integration costs. Non-EDS capital expenditures consist primarily of the acquisition of equipment and systems to support screening operations, the RAIC program, and CATSA's network infrastructure and corporate management systems.

Property and equipment and intangible assets represent 74.5% of total assets as at March 31, 2016. In 2015/16, capital expenditures for EDS and non-EDS totalled \$98.9M, as summarized below:

Capital Expenditures (Thousands of Canadian dollars)	2015/16	2014/15	\$ Variance
EDS	\$ 89,551	\$ 69,583	\$ 19,968
Non-EDS <sup>1</sup>	9,365	7,269	2,096
<b>Total capital expenditures</b>	<b>\$ 98,916</b>	<b>\$ 76,852</b>	<b>\$ 22,064</b>

<sup>1</sup> Non-EDS capital expenditures exclude a non-cash capital addition of \$464 during 2015/16 related to leasehold improvements.

The following capital projects are included in EDS capital expenditures:

- ongoing deployment of the three-level HBS system with Computed Tomography (CT) technology at Canada's busiest airports in support of the HBS Recapitalization Program;
- purchase and deployment of a network solution for CATSA's CT equipment aimed at improving performance and screening capabilities;
- continued deployment of EDS trace equipment as part of life-cycle management;
- procurement of EDS equipment for the permanent vehicle screening facilities in support of the enhanced NPS program; and
- initiation of the CATSA Plus check-point implementation at the Calgary International Airport. Significant spending on CATSA Plus is expected to take place in the coming years.

The following capital projects are included in non-EDS capital expenditures:

- purchase and deployment of network and system infrastructure in support of the enhanced NPS program; and
- life-cycle management of RAIC equipment and IT network infrastructure.

## 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. The employee benefits financial position is summarized below:

<b>Employee Benefits</b> (Thousands of Canadian dollars)	<b>March 31, 2016</b>	<b>March 31, 2015</b>	<b>\$ Variance</b>
Employee benefits asset	\$ 4,424	\$ 12,155	\$ (7,731)
Employee benefits liability	<b>(25,369)</b>	(21,745)	(3,624)
<b>Net employee benefits liability</b>	<b>\$ (20,945)</b>	\$ (9,590)	\$ (11,355)

As at March 31, 2016, the employee benefits asset represents the net funding position of 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 annually due to a combination of variables, including the discount rate, inflation rate, number of plan members and their demographics, expected average rate of salary increases, expected average remaining service lifetime of active employees, returns on plan assets and contributions. Note 10 of the annual audited financial statements provides further details regarding the underlying assumptions used in determining the net position.

The decrease in the asset of \$7.7M is due to a remeasurement loss on CATSA's RPP and SRP of \$4.0M, and additional non-cash current benefit costs of \$3.7M. The increase in the liability of \$3.6M is due to non-cash current benefit costs for CATSA's ODBP of \$2.6M, and a remeasurement loss of \$1.0M on CATA's ODBP.

# FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's operations are funded by parliamentary appropriations from the Government of Canada. The amount of parliamentary appropriations used is reported on a near-cash accrual basis of accounting.

## OPERATING EXPENDITURES

The table below serves to reconcile operating expenses reported under IFRS and operating appropriations used:

<b>Reconciliation of Financial Performance to Operating Appropriations Used</b>			
<b>(Thousands of Canadian dollars)</b>	<b>2015/16</b>	<b>2014/15</b>	<b>\$ Variance</b>
<b>Financial performance before revenue and government funding</b>	<b>\$ 624,170</b>	<b>\$ 584,830</b>	<b>\$ 39,340</b>
<b>Revenue</b>	<b>(4,741)</b>	<b>(1,474)</b>	<b>(3,267)</b>
<b>Financial performance before government funding</b>	<b>619,429</b>	<b>583,356</b>	<b>36,073</b>
<b>Non-cash expenses</b>			
Depreciation and amortization	<b>(54,084)</b>	(54,465)	381
Employee benefits expense <sup>1</sup>	<b>(7,796)</b>	14,360	(22,156)
Write-off of property and equipment and intangible assets	<b>(564)</b>	(194)	(370)
Loss on disposal of property and equipment	<b>(526)</b>	(358)	(168)
Impairment of property and equipment	<b>(292)</b>	-	(292)
Spare parts expense funded from capital <sup>2</sup>	<b>(39)</b>	(12)	(27)
Deferred lease incentives recognized in financial performance <sup>3</sup>	<b>279</b>	255	24
<b>Parliamentary appropriations for operating expenses</b>	<b>\$ 556,407</b>	<b>\$ 542,942</b>	<b>\$ 13,465</b>
<b>Other items affecting funding</b>			
Net change in prepaids and inventories <sup>4</sup>	<b>(1,674)</b>	892	(2,566)
<b>Total operating appropriations used</b>	<b>\$ 554,733</b>	<b>\$ 543,834</b>	<b>\$ 10,899</b>

<sup>1</sup> Employee benefits are accounted for in the Statement of Comprehensive Income in accordance with IFRS. The reconciling item above represents the difference between cash payments for employee benefits and the accounting expense under IFRS.

<sup>2</sup> Spare parts expense funded from capital represents 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.

<sup>3</sup> Deferred lease incentives recognized in financial performance are non-cash accounting adjustments to record the benefit derived from favourable lease terms, including significantly reduced rent, free common area costs and leasehold improvements provided at no cost. Rental costs are funded by appropriations when paid, creating a reconciling item.

<sup>4</sup> Prepaids and inventories are expensed as the benefit is derived from the asset by CATSA. They are funded by appropriations when purchased, creating a reconciling item.



The following table provides a comparison between operating appropriations used in 2015/16 and the operating budget as reported in CATSA's *Summary of the 2015/16 - 2019/20 Corporate Plan*:

<b>Operating Appropriations Used Compared to Corporate Plan</b>						
<b>(Thousands of Canadian dollars)</b>	<b>2015/16</b>	<b>Non-cash Adj</b>	<b>Operating Approp. Used 2015/16</b>	<b>Corporate Plan Budget 2015/16</b>	<b>\$ Variance</b>	<b>% Variance</b>
<b>Operating expenses</b>						
Screening services and other related costs	\$ 442,348	\$ 330	\$ 442,678	\$ 439,834	\$ 2,844	0.6%
Equipment operating and maintenance	42,790	(2,012)	40,778	39,604	1,174	3.0%
Program support and corporate services	81,834	(7,476)	74,358	78,370	(4,012)	(5.1%)
Depreciation and amortization	54,084	(54,084)	-	-	-	-
Other expenses	3,114	(1,382)	1,732	-	1,732	100.0%
Revenue	(4,741)	(72)	(4,813)	-	(4,813)	(100.0%)
<b>Total</b>	<b>\$ 619,429</b>	<b>\$ (64,696)</b>	<b>\$ 554,733</b>	<b>\$ 557,808</b>	<b>\$ (3,075)</b>	<b>(0.6%)</b>

### Screening Services and Other Related Costs

Screening services and other related costs were \$2.8M (0.6%) higher than the Corporate Plan budget. The variance is mainly due to the purchase of supplemental screening hours by the GTAA as part of the trial agreement.

Over the course of the fiscal year, CATSA distributed its screening hours budget across the programs in order to deliver its mandate in the most efficient and effective manner. Changes in

operational requirements and in the hiring of screening officers related to the implementation of vehicle screening contributed to lower spending for NPS, resulting in the reallocation of a portion of the NPS budget to PBS and HBS. These changes enabled CATSA to exceed its targeted wait time service levels as well as provide for the additional screening requirements related to the three-level HBS system transition at certain airports. In addition, CATSA achieved its overall objectives to date for the enhanced NPS program.

### Equipment Operating and Maintenance

Equipment operating and maintenance costs were \$1.2M (3.0%) higher than the Corporate Plan budget. The variance is primarily due to the purchase of additional EDS spare parts and RAIC inventory, higher conveyor maintenance costs due to a delay in obtaining approval for the implementation of DRAP measures, and additional training requirements resulting from the installation of a new EDS platform at certain airports. These increases were partially offset by lower overall costs to support the various EDS platforms.

## Program Support and Corporate Services

Program support and corporate services costs were \$4.0M (5.1%) lower than the Corporate Plan budget. The variance is mainly due to lower costs associated with fewer staffed positions than planned and lower severance costs associated with the workforce adjustment resulting from the DRAP. The variance is also due to reduced professional services requirements and lower spending than planned for the 2015 Pan Am and Parapan Am Games as no travel costs were incurred to support the event.

## Other Expenses

Other expenses were \$1.7M (100%) higher than the Corporate Plan budget. The variance consists mainly of foreign exchange loss. The Corporate Plan budget does not include foreign exchange losses, as the foreign exchange impact is factored directly into the program activity expenses. The Corporate Plan budget is developed using management's best estimate of foreign exchange rates that will be applicable to forecasted purchases denominated in foreign currencies.

## Revenue

Revenue was \$4.8M (100%) higher than the Corporate Plan budget. The variance consists mainly of revenue generated from the purchase of supplemental screening services by the GTAA. Given the uncertainty around the future of the trial agreement with the GTAA, which has been renewed annually on a one-year term since its inception, the Corporate Plan budget does not include a forecast for this revenue. Since this project operates on a cost-recovery basis, the exclusion of this revenue and related expenses has no net impact on parliamentary appropriations.

## CAPITAL EXPENDITURES

The table below serves to reconcile capital asset acquisitions reported under IFRS and capital appropriations used:

<b>Reconciliation of Capital Acquisitions to Capital Appropriations Used</b>			
<b>(Thousands of Canadian dollars)</b>	<b>2015/16</b>	<b>2014/15</b>	<b>\$ Variance</b>
EDS	\$ 89,551	\$ 69,583	\$ 19,968
Non-EDS	9,365	7,269	2,096
<b>Total capital asset acquisitions</b>	<b>\$ 98,916</b>	<b>\$ 76,852</b>	<b>\$ 22,064</b>
Proceeds on disposal of property and equipment	(44)	(52)	8
<b>Total capital appropriations used</b>	<b>\$ 98,872</b>	<b>\$ 76,800</b>	<b>\$ 22,072</b>

The following table provides a comparison between capital appropriations used in 2015/16 and the capital budget as reported in CATSA's *Summary of the 2015/16 – 2019/20 Corporate Plan*:

<b>Capital Appropriations Used Compared to Corporate Plan</b>							
<b>(Thousands of Canadian dollars)</b>	<b>Approp. Used 2015/16</b>	<b>Corporate Plan Budget 2015/16</b>	<b>Capital Re-profile Approved</b>	<b>Capital Re-profile Pending Approval</b>	<b>Revised Capital Budget 2015/16</b>	<b>\$ Variance</b>	<b>% Variance</b>
<b>EDS</b>							
PBS equipment and integration	\$ 3,171	\$ 8,994	\$ (3,649)	\$ -	\$ 5,345	\$ (2,174)	(40.7%)
HBS equipment and integration	83,829	136,654	(19,961)	(35,366)	81,327	2,502	3.1%
NPS equipment and integration	2,551	7,038	-	(4,962)	2,076	475	22.9%
<b>Total EDS</b>	<b>\$ 89,551</b>	<b>\$ 152,686</b>	<b>\$ (23,610)</b>	<b>\$ (40,328)</b>	<b>\$ 88,748</b>	<b>\$ 803</b>	<b>0.9%</b>
<b>Non-EDS</b>	<b>9,365</b>	<b>12,226</b>	<b>-</b>	<b>(1,190)</b>	<b>11,036</b>	<b>(1,671)</b>	<b>(15.1%)</b>
<b>Total capital asset acquisitions</b>	<b>\$ 98,916</b>	<b>\$ 164,912</b>	<b>\$ (23,610)</b>	<b>\$ (41,518)</b>	<b>\$ 99,784</b>	<b>\$ (868)</b>	<b>(0.9%)</b>
Proceeds on disposal of property and equipment	(44)	-	-	-	-	(44)	-
<b>Total</b>	<b>\$ 98,872</b>	<b>\$ 164,912</b>	<b>\$ (23,610)</b>	<b>\$ (41,518)</b>	<b>\$ 99,784</b>	<b>\$ (912)</b>	<b>(0.9%)</b>

Parliamentary appropriations used for capital expenditures in 2015/16 totalled \$98.9M compared to the *Summary of the 2015/16 – 2019/20 Corporate Plan* budget of \$164.9M. CATSA's total capital re-profile requests amount to \$65.1M. In March 2016, CATSA received approval from the Government of Canada for its early capital re-profile submission of \$23.6M. CATSA will work with TC to obtain approval for the additional capital re-profile of \$41.5M. After taking into consideration the capital re-profile, CATSA lapsed \$0.9M mainly due to under-spending across various EDS and Non-EDS capital projects, partially offset by the initiation of an HBS integration

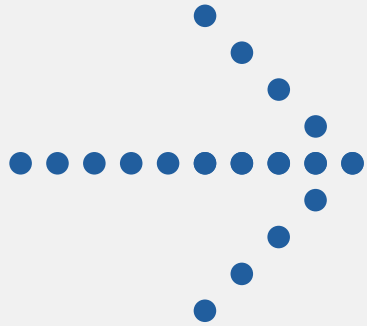
project earlier than planned, based on the airport's revised project plan.

The capital re-profile requests are mainly due to the following project delays:

- HBS integration projects (\$55.3M) – The purchase of equipment and integration work have been postponed to align with revised airport project plans. As the large-scale, multi-year HBS Recapitalization Program continues to advance, CATSA must adapt to the work plans and resource availability of the affected airports. Consequently, ongoing changes to the capital plan can be expected as airport projects may shift from one

year to another based on factors beyond CATSA's control.

- Enhanced NPS (\$5.8M) – The purchase and installation of EDS and Non-EDS equipment and system infrastructure for the enhanced NPS program have been postponed due to airport delays in the construction of permanent facilities for NPS vehicle screening.
- Liquid Explosive Detection Systems (LEDS) (\$3.6M) – The deployment of LEDS technology at PBS checkpoints is delayed pending direction from TC on the screening requirements and the results of trials undertaken by CATSA's international partners.



# FINANCIAL STATEMENTS

Canadian Air Transport  
Security Authority

Year ended March 31, 2016

# MANAGEMENT'S RESPONSIBILITY STATEMENT

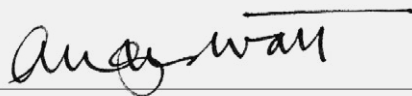
Year ended March 31, 2016

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.

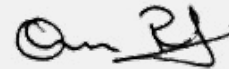
Management maintains a system of financial management and internal control designed to provide reasonable assurance that the financial information is reliable, assets are safeguarded, and transactions are in accordance with Part X of the *Financial Administration Act* and the *Canadian Air Transport 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 network 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 fulfills its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee, which is composed of directors who are not employees of CATSA. The Audit Committee meets regularly with management, 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  
President and Chief Executive Officer



Omar S. Rashed, CPA, CA  
Acting Vice-President and Chief Financial Officer

June 9, 2016



## 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, 2016, 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, 2016, 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 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, the by-laws of the Canadian Air Transport Security Authority and the directives issued pursuant to section 89 of the *Financial Administration Act* described in Note 1 to the financial statements.

Etienne Matte, CPA, CA  
Principal  
for the Auditor General of Canada

June 9, 2016  
Ottawa, Canada

# Statement of Financial Position

(In thousands of Canadian dollars)

	As at March 31	
	2016	2015
<b>Assets</b>		
Current assets		
Cash	\$ 11,227	\$ 7,981
Trade and other receivables (note 4)	88,039	94,297
Inventories (note 5)	16,327	17,980
Prepaid expenses	2,844	2,865
	118,437	123,123
Non-current assets		
Property and equipment (note 6)	351,645	311,784
Intangible assets (note 7)	6,753	2,784
Employee benefits (note 10)	4,424	12,155
	362,822	326,723
<b>Total assets</b>	<b>\$ 481,259</b>	<b>\$ 449,846</b>
<b>Liabilities and Equity</b>		
Current liabilities		
Trade and other payables (note 13)	\$ 98,356	\$ 100,443
Provisions (note 8)	711	335
Deferred government funding related to operating expenses (note 9)	19,171	20,845
	118,238	121,623
Non-current liabilities		
Construction holdbacks (note 13)	199	-
Deferred lease incentives	983	798
Deferred government funding related to capital expenditures (note 9)	357,936	314,568
Employee benefits (note 10)	25,369	21,745
	384,487	337,111
Equity		
Accumulated deficit	(21,466)	(8,888)
<b>Total liabilities and equity</b>	<b>\$ 481,259</b>	<b>\$ 449,846</b>

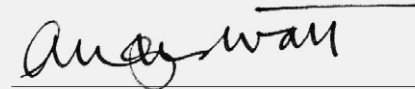
Contingencies (note 8) and contractual arrangements (note 14).

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

Approved by the Board and authorized for issue on June 9, 2016:



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



Angus Watt  
President and Chief Executive Officer

# Statement of Comprehensive Income

(In thousands of Canadian dollars)

	Years ended March 31	
	2016	2015
Expenses		
Pre-Board Screening	\$ 338,924	\$ 319,812
Hold Baggage Screening	145,896	141,340
Non-Passenger Screening	88,727	73,368
Restricted Area Identity Card Program	2,986	3,370
Corporate services	44,523	45,358
Total expenses (note 11)	621,056	583,248
Other expenses		
Foreign exchange loss	1,693	1,027
Write-off of property and equipment and intangible assets (note 6 and 7)	564	194
Loss on disposal of property and equipment (note 6)	526	358
Impairment of property and equipment (note 6)	292	-
Finance cost	39	3
Total other expenses	3,114	1,582
Financial performance before revenue and government funding	624,170	584,830
Revenue		
Supplemental screening services	4,105	971
Finance income	453	503
Miscellaneous income	183	-
Total revenue	4,741	1,474
Government funding		
Parliamentary appropriations for operating expenses (note 9)	556,407	542,942
Amortization of deferred government funding related to capital expenditures (note 9)	55,504	55,029
Total government funding	611,911	597,971
Financial performance	\$ (7,518)	\$ 14,615
Other comprehensive loss		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 10)	(5,060)	(14,373)
Total comprehensive (loss) income	\$ (12,578)	\$ 242

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



# Statement of Changes in Equity

(In thousands of Canadian dollars)

	Accumulated deficit
Balance, March 31, 2014	\$ (9,130)
Financial performance	14,615
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 10)	(14,373)
Balance, March 31, 2015	\$ (8,888)

	Accumulated deficit
Balance, March 31, 2015	\$ (8,888)
Financial performance	(7,518)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 10)	(5,060)
Balance, March 31, 2016	\$ (21,466)

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

# Statement of Cash Flows

(In thousands of Canadian dollars)

	Years ended March 31	
	2016	2015
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ (7,518)	\$ 14,615
Items not involving cash		
Depreciation of property and equipment (note 6 and 11)	52,636	51,405
Increase (decrease) in net employee benefits liability (note 17)	6,295	(12,860)
Amortization of intangible assets (note 7 and 11)	1,448	3,060
Write-off of property and equipment and intangible assets (note 6 and 7)	564	194
Loss on disposal of property and equipment (note 6)	526	358
Impairment of property and equipment (note 6)	292	-
Other non-cash transactions (note 17)	39	12
Amortization of deferred government funding related to capital expenditures (note 9)	(55,504)	(55,029)
Deferred lease incentives recognized in financial performance (note 17)	(279)	(255)
Net change in working capital balances (note 17)	(3,566)	(9,280)
	(5,067)	(7,780)
Investing activities		
Parliamentary appropriations received for capital funding	101,800	100,239
Proceeds on disposal of property and equipment	1	-
Purchase of property and equipment	(87,963)	(89,434)
Purchase of intangible assets	(5,525)	(1,235)
	8,313	9,570
Increase in cash	3,246	1,790
Cash, beginning of year	7,981	6,191
Cash, end of year	\$ 11,227	\$ 7,981

Supplementary cash flow information (note 17)

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

# Notes to Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2016

## 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.

With the support of Transport Canada, CATSA entered into a trial agreement with Greater Toronto Airports Authority (GTAA) for the provision of supplemental screening services effective October 5, 2014. The trial agreement has been extended to March 31, 2017.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

In December 2014, CATSA was issued a directive (PC 2014-1382), pursuant to Section 89 of the *Financial Administration Act*, to implement pension plan reforms. These reforms are intended to ensure that CATSA's pension plans provide a 50:50 current service cost-sharing ratio between the employee and employer for pension contributions to be phased in for all members by December 31, 2017. CATSA meets the requirements of this directive for its defined contribution pension plan. In accordance with guidance issued by Treasury Board of Canada Secretariat in July 2015, CATSA is seeking an exemption to the 50:50 cost sharing ratio for its closed defined benefit pension plans on the basis that compliance with the directive would be unfair to existing plan members. CATSA submitted a business case seeking exemption with the *2016/17 - 2020/21 Corporate Plan*.

In July 2015, CATSA was issued an additional directive (PC 2015-1114) pursuant to Section 89 of the *Financial Administration Act*, requiring CATSA to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in its next Corporate Plan. Effective December 14, 2015, CATSA issued a revised Travel, Hospitality, Conference and Event Expenditures Policy that is aligned with this directive. Reporting on the implementation of this directive was included in the *2016/17 - 2020/21 Corporate Plan*.

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. Effective April 1, 2016, CATSA became a GST/HST registrant. As a GST/HST registrant, CATSA is obligated to collect and remit taxes on taxable services supplied to external parties and CATSA's post-employment pension plans.

# Notes to Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2016

## 2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with IFRS as approved by the Accounting Standards Board of Canada (AcSB).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of measurement

These financial statements were prepared under the historical cost convention, except as required or 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

The preparation of these financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions based on existing knowledge that affect the reported amounts and disclosures in the financial statements and accompanying notes. Actual results may differ from judgments, estimates and assumptions.

In making estimates and using assumptions, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and assumptions have been applied in a manner consistent with prior periods and there are no known commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making these estimates in the financial statements.

Estimates and underlying assumptions are regularly reviewed by management and changes in those estimates are recognized prospectively in the period of change, if the change affects that period only; or the period of the change and future periods, if the change affects both.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

The critical estimates and assumptions utilized in preparing these financial statements include:

- note 3(d), note 3(e), note 6 and note 7 – Property and equipment and intangible assets

Key estimates used for property and equipment include the determination of their useful lives and the valuation of work-in-progress. The key estimate used for intangible assets includes the determination of their useful lives. In determining the expected useful lives of these assets, CATSA takes into account past experience, industry trends and internally-specific factors, such as changing technologies and expectations for the in-service period of the assets. Changes to estimates of useful life would affect future depreciation or amortization expenses and future carrying values of assets. In determining the valuation of work-in-progress, CATSA takes into account estimates provided by internal and external experts with respect to the stage of completion of an equipment integration project. Changes to the stage of completion would affect trade and other payables and the values of assets.

- note 3(i) and note 10 – Employee benefits

Key estimates used for employee benefits include the discount rate, mortality rate, inflation rate, long-term rate of compensation increase and assumed medical cost trend rates. In determining the assumptions, CATSA takes into account past experience, current market conditions and rates, and the expertise of its actuaries. Changes to these assumptions would affect its employee benefit asset and liability, as well as financial performance and other comprehensive income or loss. A sensitivity analysis of these changes in primary assumptions is presented in note 10.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

The critical judgments made by management in preparing these financial statements include:

- note 3(e) and note 7 – Intangible assets

Judgments are required in determining when internally generated intangible assets enter the development phase. In determining when to recognize costs as intangible assets, management makes judgments about when the criteria for capitalization are met as described in note 3(e). Changes to management's judgments would affect the carrying amount of its intangible assets as well as future amortization.

- note 3(j) and note 8 – Provisions and contingencies

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. In determining when to record a provision, management makes assumptions about the amount and likelihood of outflows and their timing. Factors affecting these assumptions include the nature of the provision, the existence of the claim amount, opinions and views of legal counsel and other advisors, experience in similar circumstances, and any decision of management as to how CATSA intends to handle the obligation. Changes to these assumptions would affect the recording of the provision and financial performance.

## (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, 2016

## (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. These costs include conveyor systems, platforms and other structures required to connect screening equipment to existing airport infrastructures.

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 experts 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, to the carrying amount and are recognized in financial performance.

### (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



# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

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 as incurred.

## (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	10 years
HBS equipment	10 years
NPS equipment	10 years
RAIC equipment	5 years
Computers, integrated software and electronic equipment	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 least on an annual basis.

## (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

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

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 10 years.

## **(f) Impairment**

The carrying amounts of CATSA's property and equipment and intangible assets are reviewed at each reporting period at the cash-generating unit (CGU) level to determine whether there is any indication of impairment. For the purpose of impairment testing, a CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

Under CATSA's business model, there are no assets that generate cash flows largely independent of the cash flows of other assets and liabilities. Instead, all assets interact to support its mandated activities. These operations are primarily funded by parliamentary appropriations. Overall levels of cash flow reflect public policy requirements and decisions, and budgetary funding is provided to CATSA in its entirety. Therefore, CATSA is considered one CGU. Assets are tested at the CGU level when they cannot be tested individually.

Property and equipment and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment, and are considered to be impaired if they are no longer able to contribute to CATSA's mandate. When the assets continue to contribute to the fulfillment of CATSA's mandate, the estimated useful lives of that property and equipment and intangible assets are reviewed and adjustments to depreciation/amortization are recorded on a prospective basis, if necessary.

## **(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 - non-derivative financial assets and liabilities**

Non-derivative financial assets are comprised of cash and receivables related to supplemental screening services. The remaining receivables are not classified as non-derivative financial assets because they are not contractual rights but rather created as a result of statutory requirements of the 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.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

Non-derivative financial liabilities are comprised of trade and other payables and construction holdbacks. 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.

## **(i) Employee benefits**

### **(i) Post-employment benefit plans – defined benefit**

The employee benefits asset and 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 obligation. 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.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

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. Employee contributions are recorded as a reduction to service cost in the period in which the related service is rendered. 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, 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.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

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). When a funded plan gives rise to a net pension benefit asset, a remeasurement for the effect of the asset ceiling may occur if it is established that the surplus will not provide future economic benefits with respect to future service costs. Those future economic benefits are available under the terms of CATSA's defined benefit pension plans, which allow CATSA to take contribution holidays when certain funding thresholds are met.

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.

## (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 the 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.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## (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.

## (j) Provisions and contingencies

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

Contingent liabilities are not recognized in the Statement of Financial Position. They may arise from uncertainty as to the existence of a liability, or represent an existing liability in respect of which settlement is not probable or, in extremely rare cases, the amount cannot be reliably measured. A liability is recognized when its existence is confirmed by a future event, settlement becomes probable and reliable measurement becomes possible. 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.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## (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 it is probable that a disputed claim arising from a past event results in a present legal or constructive obligation, and the obligation can be estimated reliably. 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 obligations 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 obligations will 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) Revenue

### (i) Supplemental screening services

Supplemental screening services revenue is recognized in financial performance as the screening services are provided, CATSA has no remaining obligations, and when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to CATSA. Revenue is measured at the fair value of consideration received or receivable.



# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## (ii) 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.

## (l) 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.

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.

## (m) Deferred lease incentives

Lease incentives represent a period of significantly reduced rent, a rent-free period of common area costs as well as allowances for leasehold improvements related to leased premises. The aggregate benefit of incentives is deferred and recognized as a reduction of rental expense over the term of the lease on a straight-line basis.

# Notes to Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2016

## (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 the exchange rates at the end of the reporting period, 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.

## (p) Adoption of new and revised International Financial Reporting Standards

The following amendment and annual improvements, issued by the International Accounting Standards Board (IASB) and approved by the AcSB, were adopted by CATSA effective April 1, 2015.

### (i) *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)*

IAS 19 was amended in November 2013 to clarify how contributions from employees linked to service should be attributed to periods of service. The adoption of these amendments had no impact on the financial statements as at and for the year ended March 31, 2016. These amendments were effective for annual reporting periods beginning on or after July 1, 2014, on a retrospective basis.

### (ii) *Annual Improvements to IFRSs: 2010-2012 Cycle and 2011-2013 Cycle*

The *Annual Improvements to IFRSs 2010-2012 Cycle* and the *Annual Improvements to IFRSs 2011-2013 Cycle* were issued in December 2013. These improvements include amendments to various IFRSs, including

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

changes to share-based payments, business combinations, operating segments, fair value measurement, property, plant and equipment, related party disclosures, investment property, and intangible assets. These improvements were effective for annual reporting periods beginning on or after July 1, 2014, on a retrospective basis. The adoption of these annual improvements had no impact on the financial statements as at and for the year ended March 31, 2016.

## (q) Future accounting changes

As at the date of these financial statements, the following applicable new accounting standards, annual improvements, and amendments have been issued, but are not yet effective.

- (i) *Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

IAS 16 and IAS 38 were amended to clarify when the use of a revenue-based amortization method is acceptable. Given that CATSA's depreciation and amortization are calculated using the straight-line method over their estimated useful lives, the adoption of these amendments will not have an impact on CATSA's financial statements. These amendments are effective for annual reporting periods beginning on or after January 1, 2016, on a retrospective basis, with earlier application permitted.

- (ii) *Annual Improvements to IFRSs: 2012-2014 Cycle*

The *Annual Improvements to IFRSs 2012-2014 Cycle* were issued in September 2014. These improvements include a number of amendments to various IFRSs, including changes to non-current assets held for sale, financial instruments disclosure, employee benefits, and interim financial reporting, and are effective for annual reporting periods beginning on or after January 1, 2016, on a retrospective basis. The adoption of the annual improvements will not have an impact on CATSA's financial statements.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## (iii) Amendments to IAS 1 *Disclosure Initiative*

IAS 1 was amended to clarify, rather than significantly change, existing IAS 1 requirements relating to materiality, order of notes, subtotals, accounting policies, and disaggregation. These amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The adoption of the amendments is not expected to have an impact on CATSA's financial statements.

## (iv) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued to replace IAS 18 *Revenue* and IAS 11 *Construction Contracts* and a number of other revenue-related interpretations. The standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This standard will become effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. CATSA is currently assessing the potential impact on its financial statements.

## (v) IFRS 9 *Financial Instruments*

IFRS 9 was issued in July 2014 and is considered the final version, replacing earlier versions of IFRS 9, and completes the project to replace of IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a logical model for classification and measurement of financial assets and financial liabilities, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. This standard will become effective for annual periods beginning on or after January 1, 2018, on a retrospective basis. CATSA is currently assessing the potential impact on its financial statements.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## (vi) IFRS 16 *Leases*

Recently issued IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard will become effective for annual periods beginning on or after January 1, 2019. CATSA is currently assessing the potential impact on its financial statements.

## (r) Change in presentation

Beginning April 1, 2015, CATSA changed the presentation of its supplemental screening services revenue in the Statement of Comprehensive Income, as well as the presentation of the related receivable in note 4. The change was made to separately present the revenue recorded from the provision of supplemental screening services since they have become more significant in the current fiscal year. This change also provides greater transparency around revenue sources for CATSA. Supplemental screening services revenue of \$971 for the year ended March 31, 2015, has been reclassified from miscellaneous income to supplemental screening services revenue on the Statement of Comprehensive Income. The related receivable of \$301 at March 31, 2015, which was previously presented as other in note 4, has been reclassified to supplemental screening services.

In addition, the line items previously included as part of the Statement of Comprehensive Income for the year ended March 31, 2015, under *Other expenses (income)* with a subtotal of \$108, are now presented in the Statement of Comprehensive Income for the year ended March 31, 2016, as part of the sections *Other expenses* (totalling \$1,582 for the year ended March 31, 2015) and *Revenue* (totalling \$1,474 for the year ended March 31, 2015). This change was made for presentation purposes only and has no other impact on CATSA's financial statements.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## 4. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of:

	March 31, 2016	March 31, 2015
Parliamentary appropriations	\$ 69,605	\$ 77,634
GST and HST recoverable	14,821	14,438
Supplemental screening services	1,867	301
PST recoverable	1,742	1,922
Other	4	2
	\$ 88,039	\$ 94,297

Trade and other receivables disclosed above include amounts that are past due at March 31, 2016. CATSA has not recognized an allowance for doubtful accounts for these receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable.

The age of trade and other receivables that are past due, but not impaired, are:

	March 31, 2016	March 31, 2015
31 - 60 days	\$ 981	\$ -
	\$ 981	\$ -

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## 5. INVENTORIES

Inventories are comprised of:

	March 31, 2016	March 31, 2015
Spare parts	\$ 14,128	\$ 16,407
RAIC	1,150	855
Uniforms	1,049	718
	\$ 16,327	\$ 17,980

During the year, inventories totalling \$5,934 (2015 - \$6,033) were charged to expenses. This includes \$1,508 (2015 - \$1,016) resulting from a write-down of inventories. It also includes an amount of \$44 (2015 - \$820) resulting from a reversal of previous write-downs due to an increase in the replacement cost of certain spare parts. The prior year amount also included a reversal of previous write-downs due to a change related to the expected use of some spare parts previously identified as obsolete.

# Notes to Financial Statements

(In thousands of Canadian dollars) Year ended March 31, 2016

## 6. 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 improve- ments	Work-in- progress	Total
<b>Cost</b>									
Balance, March 31, 2014	\$ 121,416	\$ 653,491	\$ 5,183	\$ 4,538	\$ 23,444	\$ 95	\$ 10,119	\$ 75,344	\$ 893,630
Additions	359	8,765	2,648	168	2,401	-	542	60,734	75,617
Disposals	(1,829)	(17,800)	-	-	-	-	-	(22)	(19,651)
Write-offs	(197)	(4,432)	-	(336)	(179)	-	(440)	-	(5,584)
Reclassifications	4,998	16,962	1,717	17	145	-	-	(23,839)	-
Balance, March 31, 2015	\$ 124,747	\$ 656,986	\$ 9,548	\$ 4,387	\$ 25,811	\$ 95	\$ 10,221	\$ 112,217	\$ 944,012
Balance, March 31, 2015	\$ 124,747	\$ 656,986	\$ 9,548	\$ 4,387	\$ 25,811	\$ 95	\$ 10,221	\$ 112,217	\$ 944,012
Additions	42	27,265	1,135	566	2,604	-	545	61,697	93,854
Disposals	(3,280)	(72,070)	(400)	(10)	(128)	-	(350)	(34)	(76,272)
Write-offs	(545)	(5,931)	(16)	(748)	(4,758)	(11)	(927)	(25)	(12,961)
Impairments	(158)	(94)	-	-	(855)	-	-	-	(1,107)
Reclassifications	(3,725)	72,730	6,215	1,199	591	-	-	(77,010)	-
Balance, March 31, 2016	\$ 117,081	\$ 678,886	\$ 16,482	\$ 5,394	\$ 23,265	\$ 84	\$ 9,489	\$ 96,845	\$ 947,526
<b>Accumulated depreciation</b>									
Balance, March 31, 2014	\$ 63,353	\$ 506,994	\$ 2,841	\$ 3,270	\$ 19,976	\$ 95	\$ 9,061	\$ -	\$ 605,590
Depreciation	9,370	38,864	818	639	1,334	-	380	-	51,405
Disposals	(1,561)	(17,668)	-	-	-	-	-	-	(19,229)
Write-offs	(196)	(4,416)	-	(327)	(160)	-	(439)	-	(5,538)
Balance, March 31, 2015	\$ 70,966	\$ 523,774	\$ 3,659	\$ 3,582	\$ 21,150	\$ 95	\$ 9,002	\$ -	\$ 632,228
Balance, March 31, 2015	\$ 70,966	\$ 523,774	\$ 3,659	\$ 3,582	\$ 21,150	\$ 95	\$ 9,002	\$ -	\$ 632,228
Depreciation	8,995	39,571	1,462	633	1,456	-	519	-	52,636
Disposals	(2,897)	(71,985)	(293)	(10)	(128)	-	(350)	-	(75,663)
Write-offs	(513)	(5,877)	(16)	(748)	(4,420)	(11)	(920)	-	(12,505)
Impairments	(99)	(43)	-	-	(673)	-	-	-	(815)
Reclassifications	(2,831)	-	2,831	-	-	-	-	-	-
Balance, March 31, 2016	\$ 73,621	\$ 485,440	\$ 7,643	\$ 3,457	\$ 17,385	\$ 84	\$ 8,251	\$ -	\$ 595,881
<b>Carrying amounts</b>									
As at March 31, 2015	\$ 53,781	\$ 133,212	\$ 5,889	\$ 805	\$ 4,661	\$ -	\$ 1,219	\$ 112,217	\$ 311,784
As at March 31, 2016	\$ 43,460	\$ 193,446	\$ 8,839	\$ 1,937	\$ 5,880	\$ -	\$ 1,238	\$ 96,845	\$ 351,645



# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

During the year, CATSA acquired \$93,854 (2015 - \$75,617) of property and equipment.

In 2011/12, CATSA began a ten year Recapitalization Program related to the conversion of its HBS systems 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 Program noted above were adjusted to reflect their expected decommissioning dates. The change in accounting estimate was accounted for on a prospective basis and increased the current year depreciation expense by \$146. The increase in depreciation expense was completely offset by an increase in the amortization of deferred government funding related to capital expenditures. From 2016/17 to 2019/20, the depreciation expense and amortization of deferred government funding related to capital expenditures are expected to increase by as much as \$762 or decrease by as much as \$731 each year, totalling \$146 by 2019/20.

During the year, CATSA recorded impairment losses related to property and equipment of \$292 (2015 - \$Nil). The impairment losses recorded related primarily to computer and screening equipment. Due to technical advancements and the in-sourcing of CATSA's Boarding Pass Security System, these assets are no longer contributing to the fulfillment of CATSA's mandate. As a result, the assets were considered to be fully impaired and the remaining net book value was recorded as an impairment loss. There were no amounts recorded related to reversal of impairment losses for the years ended March 31, 2016 and 2015.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## 7. INTANGIBLE ASSETS

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
<b>Cost</b>				
Balance, March 31, 2014	\$ 4,188	\$ 18,186	\$ 64	\$ 22,438
Additions	154	1,081	-	1,235
Write-offs	(535)	(491)	-	(1,026)
Reclassifications	-	64	(64)	-
Balance, March 31, 2015	\$ 3,807	\$ 18,840	\$ -	\$ 22,647
Balance, March 31, 2015	\$ 3,807	\$ 18,840	\$ -	\$ 22,647
Additions	537	4,574	414	5,525
Write-offs	(173)	(3,831)	-	(4,004)
Balance, March 31, 2016	\$ 4,171	\$ 19,583	\$ 414	\$ 24,168
<b>Accumulated amortization</b>				
Balance, March 31, 2014	\$ 2,872	\$ 14,809	\$ -	\$ 17,681
Amortization	663	2,397	-	3,060
Write-offs	(535)	(343)	-	(878)
Balance, March 31, 2015	\$ 3,000	\$ 16,863	\$ -	\$ 19,863
Balance, March 31, 2015	\$ 3,000	\$ 16,863	\$ -	\$ 19,863
Amortization	439	1,009	-	1,448
Write-offs	(173)	(3,723)	-	(3,896)
Balance, March 31, 2016	\$ 3,266	\$ 14,149	\$ -	\$ 17,415
<b>Carrying amounts</b>				
As at March 31, 2015	\$ 807	\$ 1,977	\$ -	\$ 2,784
As at March 31, 2016	\$ 905	\$ 5,434	\$ 414	\$ 6,753

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

As at March 31, 2016, intangible assets include an HBS Centralized Equipment Networking asset with acquisition costs of \$4,295, and remaining amortization period of 10 years.

During the year, management determined that certain development costs related to internally developed software no longer provided future economic benefit. As a result, intangible assets totalling \$108 (2015 - \$148) were expensed in the Statement of Comprehensive Income.

As at March 31, 2016, the estimated useful life of software with an original useful life of three years was revised 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, 2016, and will decrease the 2016/17 depreciation expense by \$591. This decrease will be completely offset by a decrease in the amortization of deferred government funding related to capital expenditures. In 2017/18 to 2020/21, the depreciation expense and amortization of deferred funding related to capital expenditures is expected to increase by as much as \$336 or decrease by as much as \$118 each year, totalling \$591 by 2020/21.

During the current and prior year, no research and development costs were expensed.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## 8. PROVISIONS AND CONTINGENCIES

### (a) Provisions

A reconciliation of provisions is as follows:

	March 31, 2016	March 31, 2015
Balance, beginning of the year	\$ 335	\$ -
Provisions made in the year	711	335
Amounts used	(90)	-
Provisions released in the year	(245)	-
Balance, end of the year	\$ 711	\$ 335

Several claims, audits and legal proceedings have been asserted or instituted against CATSA. These claims at March 31, 2016, consist primarily of amounts relating to licensing agreements and commodity taxes.

By nature, these amounts are subject to many uncertainties and the outcome of individual matters is not always predictable. The provisions were determined by taking into account internal analysis, consultations with external subject matter experts, and all available information at the time of financial statement preparation.

The provisions are classified as current and the expected future cash flows were not discounted, as the timing of cash outflows associated with these claims are expected to be within 12 months.

### (b) Contingencies

CATSA's contingent liabilities consist of claims and legal proceedings and decommissioning costs for which no provision is recorded.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

(i) Claims and legal proceedings

As at March 31, 2016, there was one significant legal claim outstanding against CATSA for which no provision was recorded. In 2012/13, CATSA was named as a defendant with the Attorney General of Canada in a legal action claiming damages for \$75,183 plus costs and disbursements, and interest. 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 currently exploring settlement options with the claimant. CATSA is unable to estimate when this claim will be resolved.

(ii) Decommissioning costs

CATSA has identified contingent liabilities associated with the removal of EDS equipment from airports across Canada, some of which contain hazardous materials, as well as the restoration of facilities contractually required under 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 2016/17 and 2026/27 (2015 - 2015/16 and 2025/26) is estimated to be \$1,315 (2015 - \$1,608). There is no agreement for potential reimbursements against the contingent liabilities.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## 9. DEFERRED GOVERNMENT FUNDING

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

	March 31, 2016	March 31, 2015
<b>Deferred government funding related to operating expenses</b>		
Balance, beginning of year	\$ 20,845	\$ 19,953
Operating expenses financed through parliamentary appropriations	554,733	543,834
Parliamentary appropriations recognized as government funding for operating expenses	(556,407)	(542,942)
Balance, end of year	\$ 19,171	\$ 20,845
<b>Deferred government funding related to capital expenditures</b>		
Balance, beginning of year	\$ 314,568	\$ 292,797
Capital expenditures financed through parliamentary appropriations	98,872	76,800
Amortization of deferred government funding related to capital expenditures	(55,504)	(55,029)
Balance, end of year	\$ 357,936	\$ 314,568
Total deferred government funding, end of year	\$ 377,107	\$ 335,413

# Notes to Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2016

## 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 are closed to new employees.

CATSA maintains a defined contribution pension plan for employees hired after June 30, 2013. Enrollment in this plan is mandatory for full-time indeterminate employees, as well as part-time indeterminate employees working

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

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 review of investment strategies and funding, review and approval of documents and reports required by law, and setting the policies of the plans. The Governance, Human Resources and Pension Committee, a sub-committee of the Board, assists the Board in discharging its responsibilities. This Committee is responsible for overseeing the management and administration of the plans.

## **(b) Post-employment benefit plans' risks**

The defined benefit plans expose CATSA to actuarial risks such as inflation risk, interest rate 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 also increased employee contributions to a level beyond what is permitted by the *Income Tax Regulations*. CATSA obtained a waiver to exceed permitted limits from the Canada Revenue Agency for a three-year period ending December 31, 2017. CATSA must apply for the exemption every three years.

## **(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, 2016

	RPP		SRP		ODBP	
	2016	2015	2016	2015	2016	2015
<b>Fair value of plan assets</b>						
Balance, beginning of year	\$ 162,194	\$ 119,028	\$ 5,903	\$ 5,164	\$ -	\$ -
<i>Included in financial performance</i>						
Interest income	6,739	5,953	239	251	-	-
Administration costs	(310)	(310)	(15)	(20)	-	-
<i>Included in other comprehensive loss</i>						
Remeasurement gain (loss)						
Return on assets excluding interest income	(11,502)	13,737	(304)	255	-	-
<i>Other</i>						
CATSA contributions	6,867	23,247	320	313	184	174
Plan participant contributions	3,013	3,010	21	13	-	-
Benefit payments and transfers	(5,770)	(2,471)	(245)	(73)	(184)	(174)
Balance, end of year	\$ 161,231	\$ 162,194	\$ 5,919	\$ 5,903	\$ -	\$ -
<b>Present value of defined benefit liabilities</b>						
Balance, beginning of year	\$ 151,609	\$ 112,417	\$ 4,333	\$ 3,755	\$ 21,745	\$ 16,097
<i>Included in financial performance</i>						
Current service cost	10,630	8,314	151	198	1,843	1,403
Interest expense	6,577	5,819	178	187	940	827
<i>Included in other comprehensive loss</i>						
Remeasurement loss (gain)						
Actuarial gains arising from changes in demographic assumptions	(548)	(224)	(10)	-	(463)	-
Actuarial losses (gains) arising from changes in financial assumptions	(3,784)	24,426	(128)	644	1,488	3,592
Actuarial losses (gains) arising from experience adjustments	(3,371)	318	70	(391)	-	-
<i>Other</i>						
Plan participant contributions	3,013	3,010	21	13	-	-
Benefit payments and transfers	(5,770)	(2,471)	(245)	(73)	(184)	(174)
Balance, end of year	\$ 158,356	\$ 151,609	\$ 4,370	\$ 4,333	\$ 25,369	\$ 21,745
Net employee benefits asset (liability)	\$ 2,875	\$ 10,585	\$ 1,549	\$ 1,570	\$ (25,369)	\$ (21,745)

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

	March 31, 2016	March 31, 2015
Employee benefits asset, end of year		
RPP	\$ 2,875	\$ 10,585
SRP	1,549	1,570
	4,424	12,155
Employee benefits liability, end of year		
ODBP	(25,369)	(21,745)
	(25,369)	(21,745)
Employee benefits - net liability, end of year	\$ (20,945)	\$ (9,590)

## (d) Employee benefits costs

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

	RPP		SRP		ODBP		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Defined benefit cost recognized in financial performance</b>								
Current service cost	\$ 10,630	\$ 8,314	\$ 151	\$ 198	\$ 1,843	\$ 1,403	\$ 12,624	\$ 9,915
Administration costs	310	310	15	20	-	-	325	330
Interest cost on defined benefit obligation	6,577	5,819	178	187	940	827	7,695	6,833
Interest income on plan assets	(6,739)	(5,953)	(239)	(251)	-	-	(6,978)	(6,204)
Defined benefit cost	\$ 10,778	\$ 8,490	\$ 105	\$ 154	\$ 2,783	\$ 2,230	\$ 13,666	\$ 10,874
<b>Remeasurement of defined benefit plans recognized in other comprehensive loss</b>								
Return on plan assets excluding interest income	\$ (11,502)	\$ 13,737	\$ (304)	\$ 255	\$ -	\$ -	\$ (11,806)	\$ 13,992
Actuarial gains (losses)	7,703	(24,520)	68	(253)	(1,025)	(3,592)	6,746	(28,365)
Remeasurement of defined benefit plans	\$ (3,799)	\$ (10,783)	\$ (236)	\$ 2	\$ (1,025)	\$ (3,592)	\$ (5,060)	\$ (14,373)

Defined benefit cost is recognized as employee costs in note 11, and allocated among the program expenses in the Statement of Comprehensive Income.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## (e) Composition of plan assets

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

	March 31, 2016	March 31, 2015
<i>Investment Funds</i>		
Equity Securities		
Canadian Equity Fund	\$ 48,106	\$ 48,009
U.S. Equity Fund	1,256	1,291
International Equity Fund	45,685	48,405
Debt Securities		
Canadian Bond Fund	55,035	56,655
Real Estate	6,320	3,042
Other	7,398	8,120
<i>Canada Revenue Agency refundable tax account</i>	2,783	2,575
<i>Cash and cash equivalents</i>	567	-
<b>Total plan assets, end of year</b>	<b>\$ 167,150</b>	<b>\$ 168,097</b>

The fair value of all equity, debt, real estate and other 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 a non-interest bearing account. The fair value is based on the amounts transferred into the refundable tax account held by the Canada Revenue Agency.

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

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

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	
	2016	2015	2016	2015	2016	2015
<i>Present value of defined benefit liability</i>						
Discount rate	3.75%	4.00%	3.75%	4.00%	3.75%	4.00%
Long-term rate of compensation increase	3.75%	4.25%	3.75%	4.25%	3.75%	4.25%
Inflation	2.00%	2.25%	2.00%	2.25%	2.00%	2.25%
Mortality table	CPM-B <sup>1</sup>	CPM-B	CPM-B	CPM-B	CPM-B	CPM-B
<i>Benefit costs</i>						
Discount rate	4.00%	4.75%	4.00%	4.75%	4.00%	4.75%
Inflation	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
<i>Assumed medical cost trend rates</i>						
Initial medical cost trend rate					6.20%	5.80%
Ultimate medical cost trend rate					4.30%	4.30%
Year ultimate reached					2029	2029

<sup>1</sup> Canadian Pensioners' Mortality Improvement Scale B

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

The sensitivity analysis below was determined based on changes to the respective assumptions occurring at March 31, 2016, while holding all other assumptions constant:

	Change	Impact on defined benefit liabilities
Increase in discount rate	1%	\$ (37,682)
Decrease in discount rate	1%	51,729
Increase in long-term rate of compensation increase	1%	14,508
Decrease in long-term rate of compensation increase	1%	(12,413)
Increase in inflation	1%	28,564
Decrease in inflation	1%	(22,764)
Increase in life expectancy	1 year	5,003
Decrease in life expectancy	1 year	(4,517)
Increase in assumed medical cost trend rate	1%	7,318
Decrease in assumed medical cost trend rate	1%	(5,329)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that a 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.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

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, 2014	December 31, 2015
SRP	December 31, 2014	December 31, 2015
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, 2017, will total \$9,107, comprising of \$5,672 of CATSA contributions and \$3,435 of plan participant contributions.

Cash payments to be made to the unfunded ODBP for the year ended March 31, 2017, 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, 2017, will total \$192.

With the phasing in of a revised current service cost-sharing arrangement, in response to the December 2014 pension directive as described in note 1, employee contributions are expected to increase and employer contributions are expected to decrease in the coming years.

As at March 31, 2016, the weighted average duration of the defined benefit obligation for the RPP, the SRP and the ODBP was 23.1 years (2015 - 23.0 years), 20.8 years (2015 - 20.4 years) and 25.3 years (2015 - 24.8 years), respectively.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## (h) Employee costs

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

	2016	2015
Employee costs (excluding post-employment and termination benefits)	\$ 44,933	\$ 44,214
Post-employment benefits		
Defined benefit pension plans and other defined benefits plan	13,666	10,874
Defined contribution pension plan	151	60
Termination benefits	1,098	1,362
Total employee costs (note 11)	\$ 59,848	\$ 56,510

## (i) Cost reduction initiatives

In July 2015, CATSA received approval from the Government of Canada to proceed with a two-year financial plan that includes several cost reduction initiatives. This plan is being implemented to address financial pressures inherent in funding the business and proceeding with CATSA's strategic priorities. The plan developed with Transport Canada has resulted in cost reductions of \$12,624 in 2015/16, followed by reductions of \$19,200 starting in 2016/17.

The cost reduction initiatives within CATSA's financial plan include workforce reductions. The costs incurred in connection with workforce reductions, comprising of severance, benefits and outplacement services totalled \$1,083 in 2015/16. The workforce reductions were completed in July 2015.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## 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:

	2016	2015
Screening services and other related costs		
Payments to screening contractors	\$ 435,247	\$ 397,194
Uniforms and other screening costs	4,786	4,648
Trace and consumables	2,315	2,808
	442,348	404,650
Equipment operating and maintenance		
Equipment maintenance and spare parts	41,448	44,914
RAIC	739	822
Training and certification	603	1,206
	42,790	46,942
Program support and corporate services		
Employee costs	59,848	56,510
Operating leases	6,358	5,937
Professional services and other business related costs	5,323	4,353
Other administrative costs	4,808	3,962
Office and computer expenses	4,607	5,251
Communications and public awareness	890	1,178
	81,834	77,191
Depreciation and amortization		
Depreciation of property and equipment	52,636	51,405
Amortization of intangible assets	1,448	3,060
	54,084	54,465
	\$ 621,056	\$ 583,248

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



# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## 12. GOVERNMENT FUNDING

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

	2016	2015
Main estimates	\$ 678,420	\$ 591,626
Supplementary estimates and vote adjustments	26,800	84,560
Strategic Operating Review adjustment	(12,624)	-
Capital reprofile from previous years - approved	30,124	-
Capital reprofile to future years - in progress	-	(11,175)
Corporate Plan Summary budget	722,720	665,011
Capital reprofile to future years - approved	(23,610)	-
Capital reprofile to future years - in progress	(41,518)	(41,114)
Unused portion of parliamentary appropriations	(3,987)	(3,263)
Total parliamentary appropriations used	\$ 653,605	\$ 620,634

Parliamentary appropriations used to finance operating expenses and capital expenditures were as follows for the years ended March 31:

	2016	2015
Parliamentary appropriations used to finance operating expenses (note 9)	\$ 554,733	\$ 543,834
Parliamentary appropriations used to finance capital expenditures (note 9)	98,872	76,800
Total parliamentary appropriations used	\$ 653,605	\$ 620,634

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## 13. FAIR VALUES AND RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Fair values of financial instruments

The fair values of cash, receivables related to supplemental screening services, and trade and other payables approximate their carrying value due to the current nature of these instruments.

The fair value of construction holdbacks is \$199.

### Financial risk factors

CATSA's activities are exposed to a variety of financial risks: market risk, liquidity risk and credit risk.

#### (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. CATSA is exposed to currency risk on its 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 total foreign currency exposure related to amounts recorded in trade and other payables denominated in the United States dollar (USD) and their Canadian dollar (CAD) equivalent:

	USD	CAD
March 31, 2016	\$ 2,497	\$ 3,243
March 31, 2015	3,471	4,396

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

Assuming all other variables remain constant, a 5% depreciation or appreciation of the USD against the CAD would result in an increase or decrease in financial performance of \$162 (2015 - \$220).

## (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 forecasts of cash flows for anticipated operating and investing activities. Also, the Board of Directors reviews and approves CATSA's operating and capital budgets.

The carrying value of trade and other payables, and construction holdbacks represent the maximum liquidity risk exposure for CATSA. The following table summarizes the contractual maturities of these financial liabilities:

	Less than 3 months	3 months to 1 year	Greater than 1 year	At March 31, 2016
Trade and other payables	\$ 75,985	\$ 22,371	\$ -	\$ 98,356
Construction holdbacks	-	-	199	199
	Less than 3 months	3 months to 1 year	Greater than 1 year	At March 31, 2015
Trade and other payables	\$ 84,179	\$ 16,264	\$ -	\$ 100,443

CATSA's strategy for managing liquidity risk remains unchanged from March 31, 2015.

# Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2016

## (c) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to CATSA. As a means of mitigating risk of financial loss from defaults, CATSA has adopted a practice of only extending credit to creditworthy counterparties. CATSA's exposure and the creditworthiness of its counterparties are continuously monitored. As required, CATSA establishes an allowance for doubtful accounts that reflects the estimated impairment of receivables.

CATSA is exposed to credit risk through its cash and supplemental screening services receivables. The maximum exposure to credit risk of CATSA at March 31, 2016 and 2015 was the carrying value of these assets.

- (i) CATSA's supplemental screening services receivables are derived from the provision of services to an airport authority. CATSA does not believe that it is exposed to an unusual or significant level of credit risk. These receivables are monitored by CATSA in order to assess collectability on a regular basis and an allowance for doubtful accounts will be recognized if there is evidence of impairment. As at March 31, 2016 and 2015, no allowance for doubtful accounts was required.
- (ii) As at March 31, 2016, CATSA has receivables that are past due but not considered to be impaired. CATSA did not have any receivables that were past due as at March 31, 2015. See note 4 for further information.

## 14. CONTRACTUAL ARRANGEMENTS

### (a) Non-lease arrangements

In the normal course of operations, CATSA enters into contractual arrangements for the supply of goods and services. These contractual arrangements are subject to authorized appropriations and termination rights which allow CATSA to terminate the contracts without penalty at its discretion. The most

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significant arrangements relate to contracts signed with screening contractors for the provision of screening services, as well as with vendors for screening equipment and related maintenance.

The following table provides the remaining pre-tax balance on these contractual arrangements:

	March 31, 2016	March 31, 2015
Operating	\$ 636,006	\$ 1,134,698
Capital	156,913	194,202
Total	\$ 792,919	\$ 1,328,900

## (b) Lease arrangements

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

	March 31, 2016	March 31, 2015
No later than 1 year	\$ 6,524	\$ 7,310
Later than 1 year and no later than 5 years	22,229	23,561
Later than 5 years	7,724	12,403

CATSA's most significant non-cancellable operating lease is the lease for office space at headquarters. The original lease term expires on November 30, 2017. In October 2013, CATSA exercised its options to renew for five additional years, and the revised lease term ends on November 30, 2022.

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The renewal terms incorporate lease incentives not included in the original agreement. The renewal terms also include an option to extend the lease for an additional five years beyond November 30, 2022, based on the prevailing market rate at that time and subject to the same terms and conditions. There is no further right to extend after November 30, 2027.

## 15. 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. These related party transactions are based on normal trade terms applicable to all individuals and corporations.

Income from these related parties amounted to \$611,911 (2015 - \$597,971), which represent parliamentary appropriations for operating expenses and amortization of deferred government funding related to capital expenditures. Expenses for these related parties amounted to \$13,866 (2015 - \$12,920), which include \$12,491 (2015 - \$11,794) in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

At year-end, amounts receivable from related parties were \$84,426 (2015 - \$92,072). These include \$14,821 (2015 - \$14,438) due from the Canada Revenue Agency for recoverable taxes paid on expenses and \$69,605 (2015 - \$77,634) 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 \$603 (2015 - \$671).

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## (b) Key management personnel

As at March 31, 2016, key management personnel of CATSA are composed of the ten (2015 – ten) Board members and the five (2015 – 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:

	2016	2015
Salaries, other short-term employee benefits and termination benefits	\$ 1,524	\$ 2,579
Post-employment benefits	380	316
	\$ 1,904	\$ 2,895

Other than the above compensation, there were no other related party transactions involving key management personnel and their close family members for the years ended March 31, 2016, or March 31, 2015.

## (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.

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## 16. 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, 2016	March 31, 2015
Cash	\$ 11,227	\$ 7,981
Trade and other receivables	88,039	94,297
Trade and other payables	(98,356)	(100,443)
Current portion of provisions	(711)	(335)
Construction holdbacks	(199)	-
Employee benefits transfer deficiency	-	(1,500)
	\$ -	\$ -

CATSA's objectives, policies and processes for managing capital have not changed during the years ended March 31, 2016, or March 31, 2015.

CATSA is not subject to externally imposed capital requirements.



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## 17. NET CHANGE IN WORKING CAPITAL BALANCES AND SUPPLEMENTARY CASH FLOW INFORMATION

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

	2016	2015
Decrease (increase) in trade and other receivables	\$ 3,330	\$ (5,096)
Decrease (increase) in inventories	1,653	(915)
Decrease in prepaid expenses	21	23
Decrease in trade and other payables	(7,272)	(4,519)
Increase in current portion of provisions	376	335
Increase (decrease) in deferred government funding related to operating expenses	(1,674)	892
	\$ (3,566)	\$ (9,280)

Interest income received and recognized during the year totalled \$453 (2015 - \$503).

Interest expense paid and expensed during the year totalled \$39 (2015 - \$3).

The change in trade and other receivables excludes an amount of \$2,928 (2015 - \$23,439) in relation to government funding for capital expenditures, as the amount relates to investing activities.

The change in trade and other payables excludes an amount of \$5,185 (2015 - \$13,869) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

The change in net employee benefits liability excludes an amount of \$5,060 (2015 - \$14,373) in relation to the remeasurement of defined benefit plans for the year presented in other comprehensive loss, as the amount relates to a non-cash remeasurement.

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During the year, CATSA received non-cash proceeds of \$43 (2015 - \$52) related to the disposal of property and equipment, in the form of credit notes from a supplier.

During the year, non-cash transfers of spare parts from property and equipment to inventory totalled \$39 (2015 - \$12).

During the year, CATSA had non-cash additions to deferred lease incentives of \$464 (2015 - \$Nil).



# GLOSSARY

ASSA	Airport Screening Services Agreement: The contractual agreement that governs CATSA's airport screening services with a designated screening contractor.
BoD	Board of Directors
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 (Billy Bishop), Victoria International, Whitehorse International, Windsor International, and Yellowknife.

Global Entry	Global Entry is a U.S. Customs and Border Protection Trusted Traveller program that provides expedited clearance for pre-approved, low-risk travellers upon arrival in the U.S.
HTT	Harmonized Trusted Traveller: A program that introduces new screening procedures to provide passengers with tangible benefits and further promotes risk-based screening. In addition, the program scope has expanded to include new Trusted Traveller groups (i.e., Global Entry, US and Canadian military & air crew). The expanded program currently only applies to U.S. bound travel. The new steps were facilitated by the <i>Beyond the Border Action Plan</i> — an agreement signed between Canada and the U.S. in 2011, aimed at harmonizing the benefits to pre-approved, low-risk travellers on both sides of the border.
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.
IFRS	International Financial Reporting Standards

NPS	Non-Passenger Screening: The screening of non-passengers accessing restricted areas of airports. Non-passengers can include flight crews, refuellers, caterers, aircraft groomers, maintenance and construction personnel, baggage handlers, vendors, and concession staff.
PBS	Pre-Board Screening: The screening of passengers, their belongings and carry-on baggage.
RAIC	Restricted Area Identity Card: An identification card with iris and fingerprint biometric components, used by non-passengers to access the sterile and restricted areas of Canada's major airports.
SMC	Senior Management Committee
TC	Transport Canada
Trusted Travellers	Trusted Travellers — go through background checks to ensure they are low-risk passengers. Nexus card holders already have the option to skip the conventional security line, but the federal government and CATSA have expanded the definition of Trusted Travellers to include not only Nexus holders but also Global Entry members, uniformed air crews and members of the Canadian and U.S. armed forces.
WTMD	Walk Through Metal Detector