

# CATSA

2015 ANNUAL REPORT

Canada 



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

[www.catsa.gc.ca](http://www.catsa.gc.ca)


**Contact us:**

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

Phone: 1-888-294-2202

Fax: 613-990-1295

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



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# CATSA by the Numbers

57.3 M

6000+

102

306

89

Passengers screened  
in 2014/15

Screening officers  
across Canada

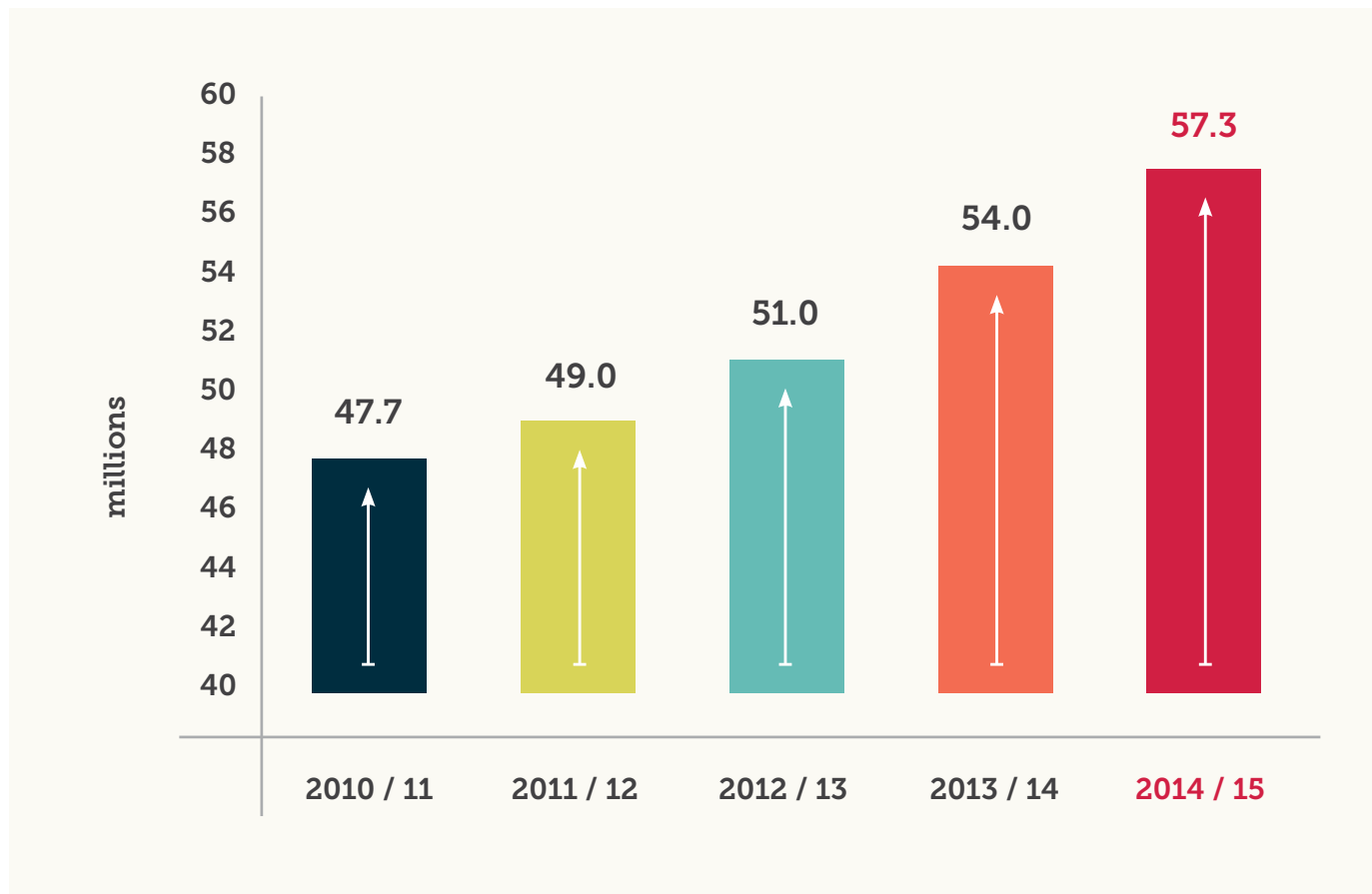
Checkpoints

Screening lines

Airports across Canada



# Passengers Screened (in millions)



# Corporate Profile

Established on April 1, 2002, the Canadian Air Transport Security Authority (CATSA) is an agent Crown corporation fully funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. Supported by its screening contractors and their screening officer workforce, CATSA screened over 57.3 million passengers and their belongings in 2014/15.

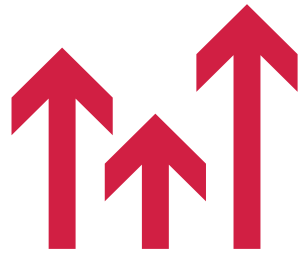
## Mission

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

## Vision

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





# Annual Highlights

“CATSA continues to collaborate with federal organizations in enhancing the benefits of NEXUS through the expansion of the Trusted Traveller program.”

## Pre-Board Screening (PBS)

- CATSA, in collaboration with Transport Canada, used the Wait Time Impact Model to project the funding requirements for 2015/16 in order to maintain 2014/15 service levels. In early 2015, CATSA was informed that its reference levels would be adjusted for 2015/16, which will allow the organization to achieve a wait time service level approximately the same as in 2014/15.
- In support of the [\*Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness Action Plan\*](#), CATSA continued to collaborate with federal organizations in enhancing the benefits of NEXUS through the expansion of the Trusted Traveller program.
- As part of CATSA’s commitment to continuous improvement, through the Strategy for Screening Effectiveness and the Security Screening Process Improvements (SSPI), a number of initiatives targeted at improving efficiency and effectiveness were trialed at airports across Canada.
- In February 2015, CATSA commenced a trial of the Queue Management System (QMS), a system that automates the collection of wait times, load balancing, boarding pass validation, and line entry access, at the Edmonton International Airport.

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## **Non-Passenger Screening (NPS)**

- In November, CATSA, in collaboration with Airport Authorities, significantly refined the non-passenger screening program by enhancing the screening program for vehicles entering restricted areas of the aerodrome at select airports across the country. This ensures that Canada continues to meet its International Civil Aviation Organization (ICAO) obligations. The expanded program represents a significant expansion of CATSA's responsibilities.

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## **Hold Baggage Screening (HBS)**

- CATSA continued its 10-year HBS Recapitalization Program, with deployment focusing on Canadian airports with U.S. pre-clearance facilities. It will enable CATSA to upgrade its HBS systems with state of the art technologies and support a Beyond the Border commitment to facilitate transborder travel. The project remains on time and on budget.
- This year, CATSA holistically evaluated its HBS courses and designed a new modularized HBS training program. This modularization provides the flexibility to tailor HBS training courses to the needs of a screening officer's (SO) specific airport.



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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 2014/15, CATSA invested in improving the efficiency of the RAIC enrolment system and planning the replacement of the handheld biometric readers.

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## Internal Services

- During the 2014/15 year, CATSA continued to build on its relationship with key national and international stakeholders through a number of initiatives including quarterly Relationship Management Program meetings with screening contractor management, offering the Screening Officer Foundations course to representatives from Transport Canada and the Canadian Airports Council as well as ongoing meetings with airport executives and vendors.
- CATSA also provided advice and training for a number of federal departments, as well as the House of Commons and the Senate of Canada's Parliamentary Precinct Services.

## Message from our Chair



The past year has been one of both constants and change – constant in that air travel demand in Canada and abroad continues to grow; change with regard to ever-evolving processes and technologies that impact how CATSA provides security screening at its checkpoints across the country. As a result of passenger growth, financial pressures have been ongoing. I am confident that CATSA has done everything possible to manage its resources efficiently so as to be best able to stay the course for the year ahead.

My belief that strong partnerships are essential to CATSA's success also endures. Cooperation and open consultation breed

progress and the past year has been no exception. In addition to a productive relationship with its regulator, Transport Canada, CATSA has also offered a receptive ear to industry and been responsive to numerous suggestions. There will always be a keen interest in increasing the efficiency of the screening process but this can never be realized at the expense of security effectiveness. Through a rigorous analysis of approach and environment, CATSA considers any possible impact to risk levels and resources and proceeds accordingly. I am particularly proud of the innovation that has been demonstrated over the last year, as CATSA continues to build on its past successes—using existing technologies like the boarding pass security system and e-gates in new ways. I am also impressed with the tremendous effort put forth across the organization on the completion of the Auditor General's Special Examination.

Narrowing my focus to board activities, part of our role is to ensure proper corporate governance. Over the past year, a governance review was undertaken that resulted in an update to our terms of reference and a shift from four board committees to three. I am confident that we have the right skills

in the right areas and a more streamlined overall governance process.

We have also seen some changes to our membership since our last report. I would like to thank Michael Campbell and William Deluce for their contribution to the board and to CATSA during their tenure, and welcome William Restall from Saskatoon, Saskatchewan and Patricia Kennedy of Delta, British Columbia as our newest members.

To all board members, I extend my gratitude for your commitment and effort in providing oversight on CATSA's key program initiatives, corporate performance and direction to CATSA's senior management. To CATSA management and staff, on behalf of all of the board, I thank you for your continuing support and for your dedication to fulfilling CATSA's mandate. I am proud of the work that you do every day to ensure the security of those travelling through Canadian airports.

A handwritten signature in black ink, appearing to read 'Lloyd A. McCoomb'. The signature is fluid and cursive, written over a white background.

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

# Message from our President & CEO



For the tens of millions of passengers screened in Canadian airports every year the process of security screening may seem simple or routine, but anyone who has worked at CATSA can tell you that it's far from that. From changes to regulations and financial pressures to evolving technology and a push for continuous improvement, there is no shortage of challenges to face on a daily basis. That's why I am particularly proud of our accomplishments over the past year.

Among our successes has been a massive expansion of non-passenger screening at major airports in just over a year's time. I assure you this was no small feat and was only possible through a close

collaboration with Transport Canada and our partners.

Now into our second decade of operations, we are also well underway in our renewal program for various equipment and technologies – the most significant of which is our hold baggage systems in all airports. This was our biggest year for CATSA's ten-year HBS recapitalization program and I am pleased to report that, despite the large number of active projects undertaken in 2014/15, we have continued to deliver on time and on budget.

With limitations on our resources for pre-board screening, we have worked closely with airports to minimize the effects of service-level pressures and longer wait times at checkpoints. This includes continuing to seek options that lower the cost of screening activities and/or improve throughput while maintaining effectiveness.

We have also commenced or completed numerous innovative initiatives to improve screening effectiveness and efficiency, including key trials in Toronto, Vancouver, Edmonton and Ottawa airports. Working collaboratively and openly with our partners and stakeholders has been critical to our success in this area. In the coming year,

we will continue to nurture these important relationships. Whether planning for space requirements and system workarounds, considering new options and approaches to front-line processes, or sharing data, expertise and best practices, we want to offer value to the aviation industry in the end-to-end travel experience.

Every day, screening officers across Canada deliver screening services professionally and with courtesy to tens of thousands of air travellers and non-passengers accessing restricted areas of our nation's airports. I commend them for their efforts and ongoing dedication. I also commend the CATSA team that stands behind them, working diligently to support them, to ensure we meet our mandate, and to uphold the trust and confidence placed in us by all Canadians.

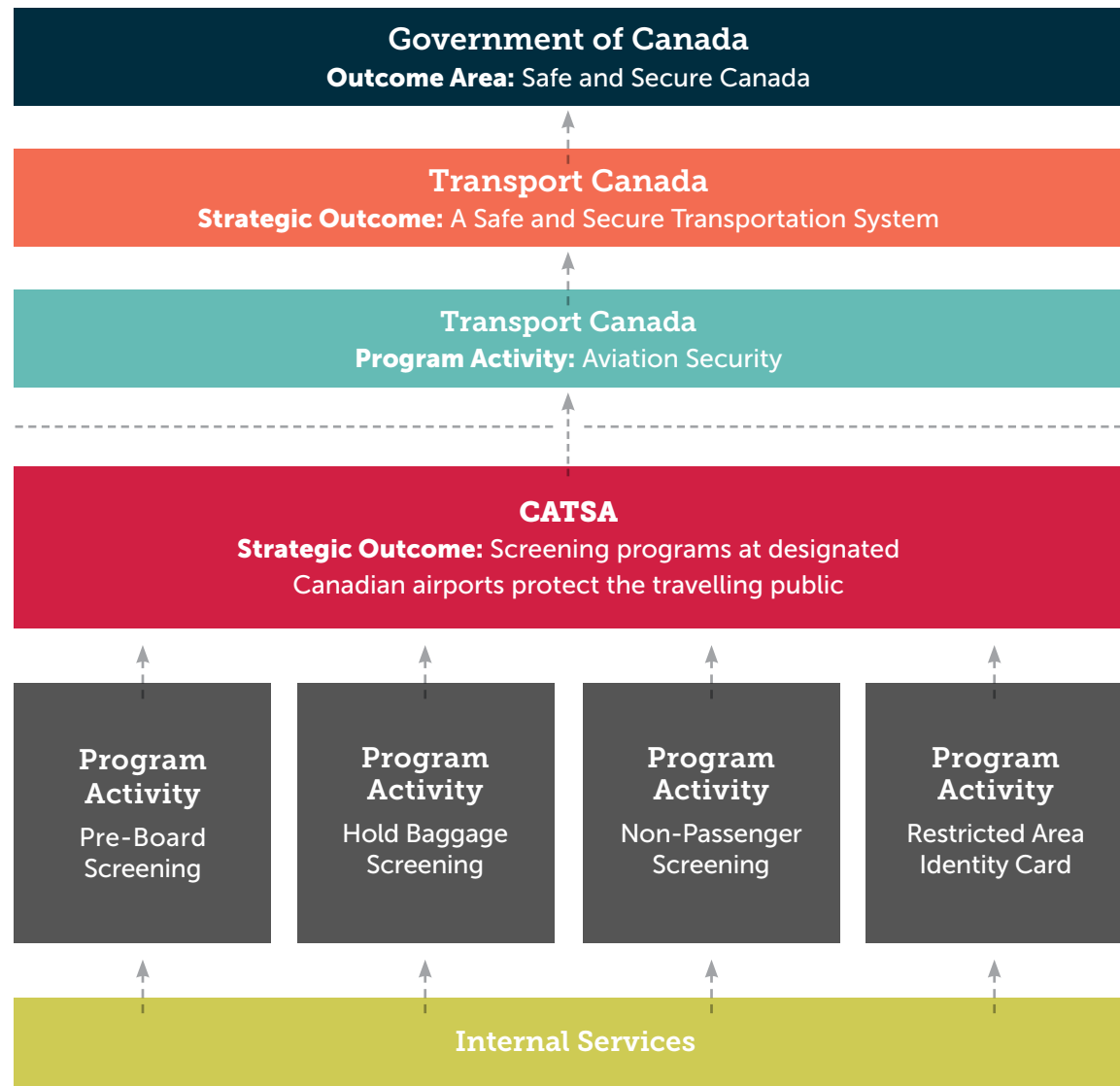
A handwritten signature in black ink that reads "Angus Watt". The signature is written in a cursive, flowing style.

Angus Watt, President and CEO

# Program Alignment Architecture

CATSA's Program Alignment Architecture (PAA) reflects the organization's mandated activities.

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



# 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 (PBS)**

At airport checkpoints across the country, security screening of passengers and their belongings is conducted by CATSA's SO's prior to their entry into the secure area of an air terminal building.

SO's 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 (HBS)**

SO's 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 (NPS)**

At restricted-area access points across the country, non-passengers are randomly selected for screening by CATSA's SO's. Non-passengers include flight and cabin crews, airline customer service personnel, caterers, maintenance personnel, baggage handlers, vendors, and other airport service staff.<sup>1</sup>

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## **Restricted Area Identity Card (RAIC)**

The RAIC system, created by CATSA in partnership with Transport Canada and airport authorities, uses iris and fingerprint biometric identifiers to allow non-passengers to access restricted areas of airports. The final authority that determines access to the restricted areas of the airport is the airport authority itself.

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

<sup>1</sup> In 2014/15 CATSA enhanced the screening program for vehicles entering restricted areas of the aerodrome at select airports across the country.

# Operating Environment



## Legislative Framework

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

In Canada, the federal government is responsible for the security of the aviation sector, with Transport Canada serving as the lead department for Canada's aviation security program. As CATSA's regulator, Transport Canada is responsible for developing, administering and overseeing aviation security policies, legislation, programs and procedures.

CATSA is subject to domestic legislation and regulations in the way that it conducts its business and screening activities. These acts and regulations include: the *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, Transport Canada endeavors 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.

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

## Industry Partners

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

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

## Service Delivery

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

## Labour Relations

CATSA outsources its services to screening contractors, who rely on a unionized SO workforce to deliver screening services. CATSA has certain responsibilities with regard to SOs' work, such as developing Standard Operating Procedures and certifying SOs. 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 is working closely with screening contractors to maintain labour stability over the long term. It is common in collective bargaining that parties negotiate beyond the expiry of the contract and enter into collective agreements retroactively.

# Risk Environment

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

CATSA's risk management program is focused on risks that may impede the organization's ability to 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.

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



“CATSA’s corporate risks are actively monitored and re-assessed on a quarterly basis by the Senior Management Committee and reported to the Board of Directors.”

## Risk Governance

CATSA has established a comprehensive risk management framework that 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 actively monitored and re-assessed on a quarterly basis by the Senior Management Committee and reported to the Board of Directors. 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 Board of Directors’ key functions and responsibilities are to provide strategic direction, financial oversight, corporate oversight and governance. With respect to risk management, it ensures that management identifies, monitors and manages CATSA’s corporate risks. It is responsible for providing clear direction of risk attitude, and approving the risk management policy as well as the corporate risk profile.

### Senior Management Committee

The Senior Management Committee is responsible for assessing CATSA’s key risks, 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 reach its strategic objectives. The following is a summary of CATSA's key corporate risks:

### **Mandated Services Risk**

#### Detection capability

Security is CATSA's top priority. CATSA is mandated to provide screening in accordance with the security regulations, measures and directives set by Transport Canada. As with any system, 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 and improve the effectiveness of its operational processes and procedures, and also maintains a capital program to support the replacement and upgrading of equipment.

### **Threat and risk information**

The 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 including business continuity and emergency response plans are in place to respond to this threat and risk information based on CATSA's standard operating procedures. These plans are periodically tested and exercised to strengthen their resilience.

### **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. As a result of these challenges, its ability to purchase screening hours has declined in the last two years. Consequently, passenger wait times have increased.

In April 2015, CATSA was informed that its reference levels will be adjusted for 2015/16, which will allow CATSA to achieve a wait time service level similar to 2014/15. CATSA continues to work with Transport Canada on identifying potential long-term solutions to address this risk.

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

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

#### **Illegal and/or legal labour disruptions**

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

To address this risk, CATSA continually monitors labour issues between screening contractors and the unions representing SOs. In the event of an illegal and/or legal 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 Canadians. There is a risk that if a screening contractor is unable to provide screening services as contracted, CATSA’s service delivery may be negatively impacted.

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

### **Reputational Risk**

Stakeholders have raised concerns about CATSA’s operations on a variety of issues and have questioned whether CATSA’s mandated services provide value for money. There is a risk that this may damage CATSA’s reputation.

To address this risk, CATSA continues to improve the passenger experience by responding to customer complaints in a timely manner and promoting a customer service-oriented culture. CATSA regularly liaises with industry stakeholders and has implemented a variety of communication strategies such as conducting passenger intercept surveys and the expanded use of social media to engage its multiple stakeholder groups.

## 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 either physical 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, various components of the plan have been updated and recently tested. Any identified gaps will be corrected and addressed during upcoming review processes.

## Human Resources Risk

CATSA strives to maintain an engaged, high performing workforce. Not unlike other government organizations, CATSA's ability to continue to recruit new talent, retain its key talent and maintain employee engagement may be impacted by ongoing fiscal constraints.

To address this risk, the organization's focus is on ensuring that its workforce is well supported to continue to contribute to the organization's mandate and interests.

# Reporting on Results

CATSA realized a number of notable accomplishments and changes that have improved its operations in 2014/15. 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

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

In Canada, CATSA's throughput levels have increased significantly since 2010. Gains in efficiencies have allowed CATSA to substantially increase the number of passengers processed per hour. By the end of 2010/11, CATSA was processing 124 passengers per hour and since then, performance has continued to improve. In 2014/15, CATSA's throughput had risen to 155.

While CATSA does not have a government-mandated service level standard in terms of passenger wait times, it uses PBS Wait Time Service Level (WTSL)<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 WTSL 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 WTSL decreased to 87% of passengers waiting 15 minutes or less.

In order to evaluate the impact of funding options on PBS WTSL, CATSA, with input from Transport Canada, developed an enhanced Wait Time Impact Model in 2013. This model uses queuing theory and scheduling optimization combined with historical data, such as passenger volumes, to estimate and project the cost of various service levels over time. In 2014/15, CATSA, in collaboration with Transport Canada, used this model to project the funding requirements for 2015/16 in order to maintain service levels comparable to 2014/15 and minimize degradation of service. In April 2015, CATSA was informed that its reference levels will be adjusted for 2015/16, which will allow CATSA to achieve a wait time service level similar to 2014/15. CATSA continues to work with Transport Canada on identifying potential long-term solutions to minimize the impact of longer wait times.

<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.

## Continuous Improvement and Innovation

Continuous improvement and innovation remain central to CATSA's business philosophy. As a result, CATSA works with our partners to continuously identify and trial areas where greater efficiency and effectiveness can be achieved. This year, the Security Screening Process Improvement (SSPI) program trialed a number of initiatives, these included the Harmonized Trusted Traveller, the Queue Management System and the Remote Screening Trial.

### *Harmonized Trusted Traveler:*

In January 2013, Transport Canada and the U.S. Transportation Security Administration (TSA) agreed to harmonize PBS procedures for Trusted Travellers at transborder checkpoints as part of [\*Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness\*](#) Action Plan.

Harmonization introduces new screening procedures that provide select passengers traveling to the U.S., who have undergone background screening and are deemed 'low risk', tangible benefits including a different screening process which 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 luggage. These new procedures further promote risk-based screening.

In December 2014, following a trial at Toronto Pearson International Airport, CATSA expanded the program to transborder checkpoints at four of Canada's busiest airports: Calgary, Montreal, Toronto and Vancouver. In December 2014, under Transport Canada's direction, CATSA also expanded the scope of passengers eligible to comprise new groups including Global Entry passengers, members of the military and air crew. CATSA is currently working with Transport Canada to expand this concept into select domestic and international Trusted Traveller lines.

### *Queue Management System (QMS):*

The QMS trial was developed to enhance PBS efficiency without negatively impacting security effectiveness or customer service. The trial will attempt to improve efficiency by automating some current non-screening functions like the scanning of boarding passes. This allows CATSA to maximize resources by directing SOs to other screening functions.

QMS builds upon previous CATSA trials including Automated Randomizer, Trusted Traveller eGate, Automated Wait Times and the removal of the Full Search Line (FSL) to combine multiple concepts into one system that can be measured and assessed. This was achieved by installing tracking sensors and eGates at PBS checkpoints. These tracking sensors automate the collection of wait times, load balancing, boarding pass validation, and line entry access. This innovative trial is the first of its kind in the world.

The trial began in February 2015 at the Domestic/International checkpoint of the Edmonton International Airport. Preliminary results are promising, with what appears to be a high level of acceptance from passengers and SOs. CATSA will continue to closely monitor and manage performance and validate whether the accuracy and reliability of the data generated by the new QMS is comparable to that currently generated by BPSS.



### *Remote Screening Trial:*

In September 2014, CATSA began the remote screening trial at the Ottawa International Airport transborder checkpoint. The remote screening trial aimed to measure the value of a remote screening system for improving SO effectiveness from a technical and operational perspective. Remote screening uses networking capabilities to locate a group of x-ray operators within a separately located operator room, thereby allowing for better load-balancing and reducing distractions for x-ray operators. With this concept, x-rays are networked to the remote screening room, and lights at each x-ray communicate the bag decision to the SO at the screening lane designated for bag searches. The search SO maintains care and control of bags requiring additional search, searches bags, and then returns them to the passenger. This remote system was developed using an “in house” solution developed by CATSA.

This configuration represents a significant change from the current PBS screening process and procedures. The trial demonstrated that a remote screening system can be successfully deployed at a PBS checkpoint for live screening with one remote SO per screening lane. While SOs had to adjust to having the x-ray operator located in a remote screening

room, operator performance with regards to screening effectiveness and covert testing remained unchanged. The remote screening system had no impact on throughput and can be operated with existing staffing levels.

### Greater Toronto Airport Authority Supplementary Screening Line Trial

In fall 2014, CATSA and the Greater Toronto Airports Authority (GTAA) entered into a Supplemental Screening Trial Agreement to assess the feasibility of a cost recovery mechanism for PBS. The trial, approved by Transport Canada, ran from October 2014 - March 2015.

The trial enabled the GTAA to purchase additional screening services in the form of supplemental screening lines. These lines were staffed by four SOs, for 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.

“Remote screening uses networking capabilities to locate a group of x-ray operators within a separately located operator room, thereby allowing for better load-balancing and reducing distractions for x-ray operators.”

At the end of the initial trial period, the GTAA expressed a desire to continue purchasing additional screening hours. As a result of this interest, this trial has been extended until March 2016. Initial results indicate that the trial is achieving reductions in passenger wait times and mitigating against the effects of decreased funding at the times and locations where supplemental screening lines were deployed. CATSA will continue to work with TC and the GTAA to refine the cost recovery framework.



## Boarding Pass Security System (BPSS)

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



BPSS enhances the following objectives:

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

As a result of data sharing agreements signed in 2013/14, CATSA has also been sharing BPSS data with two major Canadian air carriers, allowing stakeholders the ability to access information for statistical purposes<sup>4</sup>. This information has equipped air carriers with the tools necessary to make decisions on whether or not to hold a flight and further allows for air carrier to complete accurate trending for improved customer service.

In December 2014, CATSA completed the in-sourcing of BPSS equipment and support from a third party provider. This transition project lasted one year and involved extensive work in creating an internal BPSS environment, launching new software for remote maintenance and transitioning BPSS from the existing contractor environment to our own. As of December 2014, ongoing maintenance and support of the system is now handled directly by CATSA.

<sup>4</sup> In accordance with the *Privacy Act*, no personal data belonging to passengers is shared with air carriers.

### Manual Split Lane Deployment

In 2012/13, CATSA conducted a trial at the Toronto Pearson International Airport that installed manual split lanes on screening lines to ease passenger flow at the checkpoint and facilitate additional searches when required. Checkpoints where the trial was conducted saw increases in peak volume throughput, improved processing times, and exceeded passenger satisfaction targets. The introduction of manual split lanes also enhanced care and control of bags by SOs. The trial was deemed a success and CATSA is currently moving forward with national deployment. By the end of 2014/15, CATSA deployed Manual Split Lanes at select checkpoints in Vancouver, Ottawa, Edmonton, Montreal, Toronto, Fort McMurray, Victoria, Winnipeg, Calgary, Halifax, Saskatoon, and Quebec City.

### Passenger Facilitation and Passenger Assistance

CATSA recognizes that passengers with special needs or from diverse cultural backgrounds often have unique requirements and/or concerns related to security screening. CATSA in the Community is an outreach program through which CATSA collaborates with specific groups to identify their needs and provide them with customized information. Through this program, CATSA hopes to improve both the customer experience as well as the flow of passengers through checkpoints, and create mutually beneficial relationships with groups who represent passengers with special needs and various ethnic backgrounds.

Another initiative that complements CATSA in the Community is outreach advertising. For example, a considerable number of passengers travelling on flights to various Asian destinations bring items in their carry-on baggage that are considered restricted. To address this

issue, CATSA adapted its advertising campaign into traditional Chinese and placed advertisements in Vancouver's largest Chinese newspapers to help educate passengers on permitted and non-permitted carry-on items at Canadian airports. This outreach was so successful that Citizenship and Immigration Canada recognized CATSA in its annual report on the *Canadian Multiculturalism Act*.

As part of our passenger service, CATSA leverages our checkpoint technology to provide passenger assistance when items are lost or left behind at the checkpoint. In order to reunite passengers with these items, CATSA uses a combination of its networked X-ray systems, closed captioned television cameras and BPSS. In 2014/15, thanks to our innovative use of this technology, CATSA reunited 1994 items that were lost or left behind at the checkpoint with passengers.

## Performance

### PBS–Effectiveness

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

### PBS–Efficiency

Performance measure	Target	2012/13	2013/14	2014/15	Comments
SO attrition levels	20.0%	9.4%	9.8%	13.8%*	Higher attrition is attributable to resignations due to misalignment between job functions and SO candidate expectations and termination due to performance issues.

Definition: The percentage of SOs at the eight busiest airports who voluntarily resigned, died, or retired.

\* Adjustments were made to the calculation in 2014/15 to better reflect SO attrition at a national level. The new calculation only applies to 2014/15 figures and therefore, year over year comparisons should be viewed in this context. The change in calculation also caused the attrition result to be slightly higher (approximately 0.6% can be attributed to the change in methodology).

PBS throughput	N/A*	148	155	155	PBS throughput remained stable.
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Definition: The number of passengers screened per hour per line at the eight busiest airports' PBS checkpoints during busy periods.

\* Please note that the previous throughput target of 120 was set as part of the 2010 CATSA review. This target is calculated using the Peak Volume Throughput methodology and is used to manage CATSA's operations. For the purpose of international comparisons and external reporting, CATSA uses the Optimal Throughput which is based on a different methodology. 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.

## Performance

### PBS–Consistency

Performance measure	Target	2012/13	2013/14	2014/15	Comments
Security screening compliance	98.0%	94.3%	94.3%	93.8%	CATSA's procedures and technologies change each year. As a result, minor fluctuations in compliance rates are anticipated from year to year.

Definition: The results of evaluation by CATSA Performance Officers of SO procedural compliance to security screening SOPs at the eight busiest airports, including passenger and carry-on security.

### PBS–Effectiveness

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

### PBS–Efficiency

Performance measure	Target	2012/13	2013/14	2014/15	Comments
National Training and Certification Program success rate	90.0%	91.0%	90.0%	90.6%	The NTCP success rate is slightly above target and is consistent with previous years.

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

## Performance

### PBS–In the Public Interest

Performance measure	Target	2012/13	2013/14	2014/15	Comments
Confidence in security screening	75.0%	71.9%	73.8%	74.1%	Confidence continues to trend upwards and has increased by more than 5 percentage points since 2010/11.
<p>Definition: The percentage of passengers who express high confidence in CATSA security screening. Calculated from results of completed surveys at select busiest airports. High confidence is defined as answering 5, 6 or 7 on a 7-point scale survey questionnaire.</p>					
Satisfaction with overall screening experience	85.0%	82.6%	82.0%	81.6%	Overall satisfaction remained stable for the past three years.
<p>Definition: The percentage of passengers surveyed who express satisfaction with their overall experience with security screening at select busiest airports.</p>					
Customer Satisfaction Index	85.0%	80.5%	80.3%	80.1%	Satisfaction with speed of being processed is the only measure in the index that has trended downwards (down 4 percentage points since 2012/13). All other measures in the index have remained stable.

Definition: The Customer Satisfaction Index is a measure of satisfaction with the following key customer service criteria: speed of being processed, courtesy and respect, professionalism, and help provided by SOs. Results are based on quarterly survey data collected from the eight busiest airports in Canada.

Continued on next page

**Performance** (Continued from previous page)

**PBS–In the Public Interest**

Performance measure	Target	2012/13	2013/14	2014/15	Comments
Passenger complaints closed in <30 days	90.0%	79.8%	81.3%	75.6%	CATSA has received an increase in complaints associated with longer wait times at PBS and procedural changes at HBS. The increase in complaints has led to a decline in the percentage of complaints closed in less than 30 days.

Definition: The percentage of passenger complaints received each quarter at the eight busiest airports that are closed within 30 calendar days of being received.

## Hold Baggage Screening

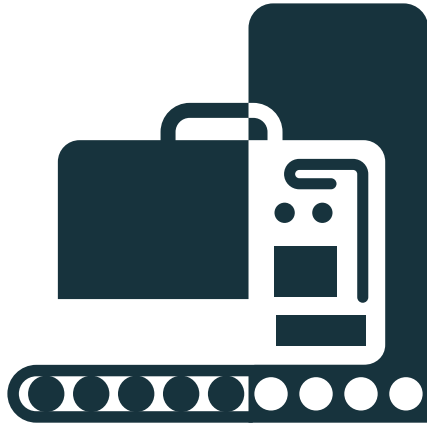
### Key Accomplishments

One of CATSA's top priorities continues to be the life-cycle management of its HBS system. The 10-year HBS Recapitalization Program that began in 2011 will see CATSA upgrade its systems nationwide. The HBS recapitalization project supports the joint Canada-U.S. [\*Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness\*](#) Action Plan. The program will eliminate the need for duplicate screening and facilitate travel for passengers departing from Canada and transiting through U.S. airports.

As CATSA nears the halfway point of this large-scale project, implementation is well underway. During the past fiscal year, CATSA continued its 10-year HBS Recapitalization Program with 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 the airport. At this point, CATSA is confident that the project will continue to proceed as planned.

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



## Performance

### HBS–Effectiveness

Performance measure	Target	2012/13	2013/14	2014/15	Comments
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Given the sensitivity of this performance category and its associated results, this data cannot be included in a public document.

### HBS–Efficiency

Performance measure	Target	2012/13	2013/14	2014/15	Comments
SO attrition levels	20.0%	9.4%	9.8%	13.8%	Higher attrition is attributable to resignations due to misalignment between job functions and SO candidate expectations and termination due to performance issues.

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

\*Adjustments were made to the calculation in 2014/15 to better reflect SO attrition at a national level. The new calculation only applies to 2014/15 figures and therefore, year over year comparisons should be viewed in this context. The change in calculation also caused the attrition result to be slightly higher (approximately 0.6% can be attributed to the change in methodology).



## Performance

### HBS–Consistency

Performance measure	Target	2012/13	2013/14	2014/15	Comments
National Training and Certification Program success rate	90.0%	91.0%	90.0%	90.6%	The NTCP success rate is slightly above target and is consistent with previous years.

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

### HBS–In the Public Interest

Performance measure	Target	2012/13	2013/14	2014/15	Comments
Confidence in security screening	75.0%	71.9%	73.8%	74.1%	Confidence continues to trend upwards and has increased by more than 5 percentage points since 2010/11.

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

## Non-Passenger Screening

### Key Accomplishments

As a result of Transport Canada requirements, CATSA must screen non-passengers accessing restricted areas of airports. These people include flight and cabin crews, airline customer service personnel, baggage handlers, vendors and other airport employees. Non-passengers are screened using the same equipment used to screen passengers. Bags, tools and other items carried by non-passengers may also be checked with X-ray and/or explosives-detection equipment. In 2013, CATSA significantly enhanced its non-passenger screening activities to acknowledge more stringent Transport Canada requirements stemming from its international obligations. In 2014/15, CATSA continued refining 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.

## Restricted Area Identity Card

### Key Accomplishments

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

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. CATSA continues to be responsible for developing and maintaining the RAIC system, installing and maintaining the fingerprint and iris readers at airport terminals, and the network infrastructure. In 2014/15, CATSA invested in improving the efficiency of the RAIC enrolment system and planning the replacement of the handheld biometric readers. CATSA will continue to work with airport authorities to deliver and maintain an effective, efficient, and reliable biometric credential management system at 28 airports across the country.

## Internal Services

### Strategic Operating Review

During 2014/15, CATSA worked with Transport Canada to finalize the implementation plan to realize outstanding savings from the Government's 2012 Spending Review.

These cost reductions will not impact CATSA's front-line security mandate.

### Business Continuity Planning

As part of the Business Continuity and Emergency Management Program, CATSA held a Labour Disruption exercise in March 2015 to test its Labour Disruption Response Plan in preparation for upcoming negotiations between the screening contractors and the unions representing the SO workforce. This exercise ensures that both CATSA and screening contractors are ready, should a labour disruption event occur.

## Stakeholder Relationship Program

During the 2014/15 year, CATSA continued to build on its relationship with key stakeholders through a number of initiatives including quarterly Relationship Management Program meetings with screening contractor management, offering the Screening Officer Foundations course to representatives from Transport Canada and the Canadian Airports Council and ongoing meetings with airport executives. Internationally, CATSA has built strong partnerships with other stakeholders that enable information sharing on new developments, best practices and data driven operations. CATSA is considered as a leader in screening thanks to the multiple innovative projects discussed previously. Throughout the year, CATSA has hosted contingents such as TSA, the German Federal Police, Lufthansa, the Orlando Airport Authority, the New Zealand Aviation Security Service, the Switzerland federal Office of Civil Aviation, and the Australian Office of Transport Security. In addition, CATSA presented at meetings hosted by the International Air Transport Association,

the Airports Council International, ICAO, the European Civil Aviation Conference, and the International Forum for Security Screening in Aviation.

Nationally, CATSA has worked with a growing number of federal departments to share its knowledge, advice and training. Most recently, following the October 22, 2014 events on Parliament Hill, CATSA reached out to the House of Commons and the Senate of Canada's Parliamentary Precinct Services to help strengthen the posture of Hill security. Specifically, CATSA added to their existing scanning systems and provided support with the transfer of 16 explosive trace detection systems at the House of Commons and 12 in the Senate, as well as training and maintenance support.

In addition, other security organizations and federal departments have also approached CATSA to learn more about our expertise in explosive detection, testing methodologies, training programs and, in some cases, receive training and materials for their training professionals.

“Ensuring that SOs are appropriately trained for the situations they will encounter at checkpoints is an important element in CATSA’s ability to deliver on its mandate.”

### Training

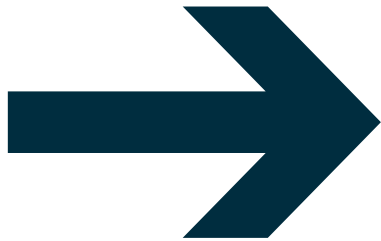
Ensuring that SOs are appropriately trained for the situations they will encounter at checkpoints is an important element in CATSA’s ability to deliver on its mandate. To this end, CATSA works with screening contractors throughout the year on a number of training programs for SOs.

CATSA’s Recurrent Learning Program (RLP) offers comprehensive and continuous learning to SOs in order to maintain certification and enhance knowledge, skills, and competencies. This year, approximately 5,500 SOs completed CATSA’s RLP. In addition to recurrent learning, SOs participated in training in order to perform specialized functions. Since the enhancement of

CATSA’s NPS vehicle program at Canada’s eight busiest airports, approximately 240 SOs successfully completed NPS vehicle training program. This year, CATSA holistically evaluated its HBS courses and designed a new modularized HBS training program. This modularization provides the flexibility to tailor HBS training courses to the needs of an SO’s specific airport. The HBS training program is now undergoing a phased redesign of key HBS technology courses. During 2014/15, HBS training was successfully delivered to over 900 SOs.

# Looking Ahead

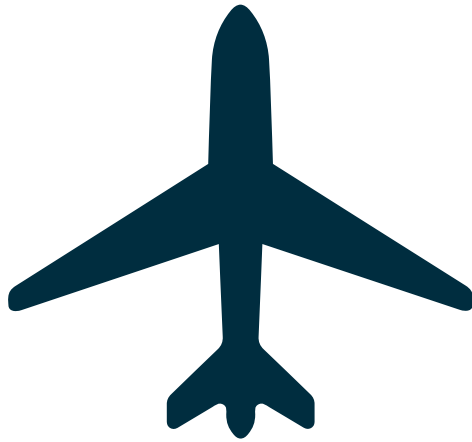
## Growing Passenger Volumes and Increasing Wait Times



In 2010/11, CATSA screened approximately 47.7 million passengers at designated airports. In 2014/15, CATSA screened 57.3 million passengers. By 2019/20, passenger volumes are expected to reach approximately 62.8 million. CATSA and Transport Canada 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 impacted wait time performance over the past two years. CATSA has worked with Transport Canada to mitigate the impacts of increasing wait times. In early 2015,

CATSA was informed that its reference levels would be adjusted for 2015/16, which would allow the organization to achieve a wait time service level approximately the same as in 2014/15. CATSA and Transport Canada are working closely in analyzing possible solutions to funding pressures for 2016/17 and beyond.



## Supporting Canada's Airports

In anticipation of passenger growth, airports take on terminal expansion projects as part of their business plans. Consequently, they make requests to CATSA for additional screening lines to augment their capacity. For example, the Calgary Airport recently requested additional screening capacity due to growth and as part of its airport expansion project. This expansion project includes the building of a new terminal. The new terminal construction provided CATSA with an opportunity to design screening lines that integrate successful pilots and trials into one PBS screening location. Some of the features of these

new lines include remote screening, automatic conveyors with bin return, split lanes, an enhanced re-pack area and parallel passenger divestiture. It is expected that the integration of these screening concepts into one location will enhance security and efficiency. CATSA is working with the Calgary Airport Authority to develop the new checkpoint configuration by the summer of 2016.

As previously mentioned, in fall 2014, with Transport Canada's support, CATSA entered into a Supplemental Screening Trial Agreement with the Greater Toronto Airports Authority (GTAA). This agreement allowed the GTAA to purchase additional screening services. The GTAA is generally pleased to date and has expressed a desire to continue purchasing additional screening hours. As a result of this interest in continuing the trial, this trial has been extended until March 2016.

In 2014/15, the Vancouver Airport Authority proposed to CATSA an initiative to reconfigure select screening lines in the airport's International PBS checkpoint. The final configuration of these lines is still under development and will include additional equipment to automate baggage operations and to provide software

to allow for the remote viewing of bag X-ray images by CATSA SOs. CATSA is working with the airport authority and Transport Canada to support this initiative.

## Continued Deployment of Enhanced NPS Mandate

CATSA is working closely with Transport Canada and stakeholders to build on the success it has achieved in 2013/14. The organization will fully maximize the experience gained and apply lessons learned where applicable in order to ensure the continued implementation of the Enhanced NPS program remains efficient and effective.

In November 2014, the non-passenger vehicle screening interim program became effective at select airports. Airport authorities are currently completing a characterization study of the vehicle screening access points, examining traffic patterns, volumes, and types of vehicles passing through the checkpoint, in order to refine and improve the process.

## Airport Screening Services Agreement Renewal

In 2010, CATSA launched a Request for Proposals process which led to the awarding of four Airport Screening Services Agreements (ASSAs). These five-year contracts, with five one-year renewal options that can be exercised together or individually, took effect in November 2011 and will expire on March 31, 2017.

At the half-way point of the initial term of the contracts, CATSA is in the planning stages of conducting an assessment of how well the contracts have worked as well as the performance of each screening contractor. Much of this assessment will take place in 2015/16 and will be used to inform CATSA's senior management and Board of Directors decision making.

## Driving Checkpoint Efficiency

Over the years, gains in efficiencies through process improvements have allowed CATSA to increase the number of passengers processed per hour. CATSA will continue to explore such operational trials for the evaluation of new processes, technologies, and tools that are developed to enhance screening operations.

In cases where trials are successful, CATSA will work to ensure the incorporation of these trials and technologies into our screening operations. Following the success of the Manual Split Lane Trial in 2014/15, CATSA will ensure remaining deployments to smaller checkpoints are completed by the end of 2016/17.

In 2015/16, CATSA also plans to examine the possibility of modifying the pre-screening divestiture area in order to facilitate the flow of passengers through the screening checkpoint, by allowing multiple passengers to divest their belongings simultaneously. Although this idea is only in the conceptualization stages, it may allow for a more continuous flow of bins into the X-ray machine.

## Strategic Operating Review

CATSA will work to implement the initiatives to realize outstanding savings from the Government's 2012 Spending Review. These cost reductions will not impact CATSA's front-line security mandate.

# Corporate Governance

CATSA is accountable to Parliament 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.

As of March 31, 2015, CATSA's Board of Directors included:

- Lloyd McCoomb, Chair Person
- Paul Benoit
- Melissa Coulson
- Jean-Marc Dufour
- Patricia Kennedy
- Dora Koop
- William Restall
- Allan Rowe
- Peter Wallis
- Joanne Whittle
- Vacancy

Read Board members' biographies [here](#). William Restall was appointed to the Board of Directors on September 29, 2014 for a three-year term as a nominee of the Canadian Airports Council, replacing Michael Campbell. On March 26, 2015, Patricia Kennedy was appointed for a three-year term as a nominee of the Air Transport Association of Canada, replacing William Deluce.

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

- Drafting, amending or repealing corporate by-laws (Financial Administration Act, s.114);
- Approving CATSA's Corporate Plan for recommendation to the Minister;
- Monitoring corporate performance;
- Approving the President and CEO's objectives for the year and evaluating his/her Performance (CATSA Act s.17);
- Ensuring the principal risks of CATSA's business are identified and that appropriate Systems to manage these risks have been implemented; and
- Reviewing and approving management's succession plan for senior management.



In 2014/15 the Board of Directors 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 corporation's quarterly financial information. The Board of Directors 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 Board of Directors also oversaw key program initiatives, including a number of continuous improvement initiatives in order to promote efficient and effective passenger screening. The Board continued to oversee CATSA's ten-year HBS recapitalization plan, under the direction of Transport Canada, and the implementation of the enhanced NPS program.

In 2014/15 the Board merged the Pension Committee with the Corporate Governance and Human Resources Committee to form a Governance, Human Resources and Pension Committee. As of June 2014, three standing committees assist the Board in discharging its responsibilities: the [Audit Committee](#), the [Governance, Human Resources and Pension Committee](#) and the [Strategy Committee](#). Over the past year, a temporary Ad Hoc committee of the Board was formed to review management's proposal to implement changes to the compensation plan for employees of the organization which was ultimately approved by the Board of Directors.

The committees are governed by Board-approved terms of reference and are independent from management.



## Board Remuneration and Meeting Attendance

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

Board Member	Board Retainer (A)	Per Diems (B)	Total Remuneration (A+B)
Lloyd McCoomb (Chair.) <sup>2</sup>	\$ 10,800	\$ 19,320	\$ 30,120
Paul Benoit	\$ 5,400	\$ 10,140	\$ 15,540
Michael Campbell <sup>3</sup>	\$ 2,700	\$ 6,630	\$ 9,330
Melissa Coulson	\$ 5,400	\$ 7,800	\$ 13,200
William Deluce <sup>8</sup>	\$ 5,317	\$ 8,385	\$ 13,702
Jean-Marc Dufour	\$ 5,400	\$ 10,725	\$ 16,125
Dora Koop <sup>4</sup>	\$ 5,400	\$ 14,040	\$ 19,440
William Restall <sup>6</sup>	\$ 2,742	\$ 2,925	\$ 5,667
Allan Rowe <sup>5</sup>	\$ 5,400	\$ 11,310	\$ 16,710
Peter Wallis <sup>7</sup>	\$ 5,400	\$ 11,505	\$ 16,905
Joanne Whittle	\$ 5,400	\$ 4,875	\$ 10,275
Patricia Kennedy <sup>9</sup>	\$ 0	\$ 0	\$ 0
Vacancy	----	----	----
<b>TOTALS</b>	<b>\$ 59,359</b>	<b>\$107,655</b>	<b>\$ 167,014</b>

Total remuneration (annual retainer and per diems) paid to directors and the Chairperson was \$167,014 in 2014/15 compared to \$228,253 in 2013/14.

## Board and Committees Attendance

Board and committee attendance is based on the number of meetings attended out of the total number of meetings that occurred while the director was a member of the Board and/or committee. In June 2014, the committee membership guidelines were changed such that Directors are no longer required to be a member of 2 committees.

Board Member	Board Meetings	Committee Meetings		
		Governance, Human Resources & Pension (GHRP) <sup>1</sup>	Audit	Strategy
Lloyd McCoomb <sup>2</sup>	10/10	4/4	7/7	4/4
Paul Benoit	9/10	4/4	-	4/4
Michael Campbell <sup>3</sup>	3/5	2/2	-	2/2
Melissa Coulson	10/10	-	7/7	-
William Deluce <sup>8</sup>	9/10	-	7/7	4/4
Jean-Marc Dufour	10/10	4/4	-	-
Dora Koop <sup>4</sup>	10/10	4/4	7/7	-
William Restall <sup>6</sup>	4/5	-	-	2/2
Allan Rowe <sup>5</sup>	9/10	-	7/7	4/4
Peter Wallis <sup>7</sup>	9/10	-	7/7	4/4
Joanne Whittle	8/10	3/4	-	-
Patricia Kennedy <sup>9</sup>	-	-	-	-
Vacancy	-	-	-	-

<sup>1</sup> The Corporate Governance and Human Resources Committee and Pension Committee each had one meeting in 2014/15 prior to merging into the GHRP Committee. Member attendance for these committees is accounted for under the GHRP Committee.

<sup>2</sup> Ex-officio member of all Board Committees

<sup>3</sup> Term ended on September 29, 2014

<sup>4</sup> Chairperson of the Governance, Human Resources & Pension Committee

<sup>5</sup> Chairperson of the Audit Committee

<sup>6</sup> Term began September 29, 2014

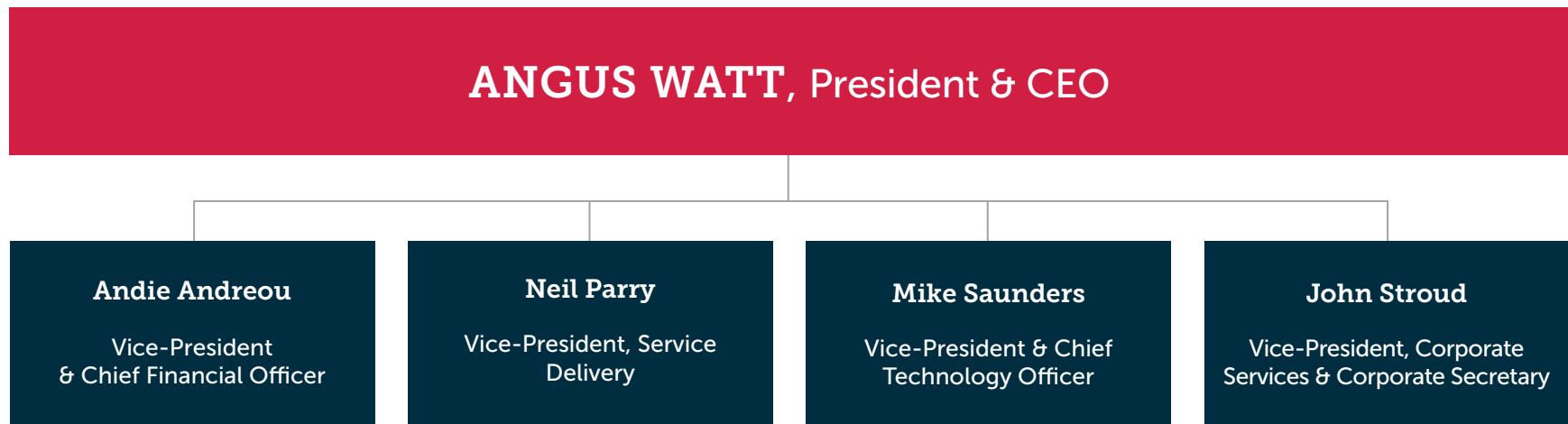
<sup>7</sup> Chairperson of the Strategy Committee

<sup>8</sup> Term ended March 26, 2015

<sup>9</sup> Term began March 26, 2015

## CATSA Management Team

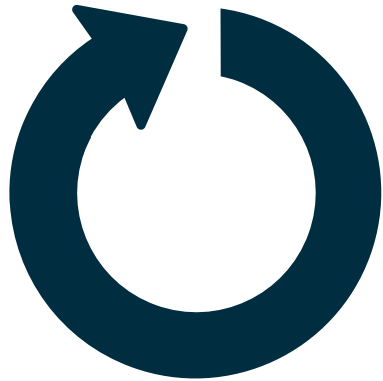
CATSA is led by a senior management committee, headed by Angus Watt, the President and CEO. The senior management committee includes 4 vice-presidents, each representing a specific portfolio.<sup>5</sup>



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

<sup>5</sup>As of March 31, 2015, CATSA's senior management consisted of five vice-presidents. Subsequently, CATSA restructured its senior management team. As a result, the organization reduced its number of vice-presidents from five to four. The responsibilities of the former Vice-President, Legal and Corporate Secretary have been re-allocated to the vice-presidents of the remaining branches.

# Disclosure



## Report on CATSA's Official Languages Act Requirements

CATSA serves more than 100,000 passengers from different linguistic backgrounds daily. Offering bilingual services not only makes good sense from a customer service point of view, it also supports our obligations under the Official Languages Act. As such, we are dedicated to working in both official languages in designated bilingual airports and our administrative offices.

Clear communication with passengers is critical to an effective, efficient and respectful screening process. Therefore, CATSA ensures its bilingualism obligations are incorporated throughout its operations—from contracting to training to oversight. At the checkpoint, CATSA works with its screening contractors to ensure that sufficient bilingual personnel are available at bilingual airports. We provide training and regular reminders to all SOs on active offer of service and the obligation to serve passengers in the official language of their choice throughout their screening process.

We also conduct frequent assessments of our front-line operations to ensure they meet our obligations under the *Official Languages Act*.

CATSA's efforts to better serve passengers in the language of their choice are ongoing. We are committed to continuous improvement and we conduct regular passenger satisfaction surveys and monitor complaints to refine and improve practices and performance.

In 2014/15, CATSA carried out its decennial assessment of the demand for services in both official languages at our screening checkpoints. The final results – expected in 2015/16 – will ensure CATSA continues to provide services to passengers in both official languages at airports with sufficient demand.

CATSA is also committed to promoting a bilingual work environment. In 2014/15 we undertook a review of our Official Languages Program and Second Language Training Program for employees. A re-alignment of those programs was necessary to better support employees in language training and improve current success rate. Additionally, CATSA continues to focus on recruiting bilingual candidates for bilingual positions.

Various activities were also held at CATSA to mark *Les Rendez-vous de la Francophonie*, *Journée internationale de la Francophonie* and *Linguistic Duality Day*. These activities highlight Canada's French linguistic and cultural communities and improve employee awareness of the importance of linguistic duality in our workplace – both at headquarters and in our regional offices.

## **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 10 principles of the *Canadian Standards Association Model Code* into every program, activity of system 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, 2014 to March 31, 2015, CATSA received 28 requests under the *Access to Information Act*. When added to the 4 outstanding requests from the previous year, CATSA processed 32 requests. Of these, 27 were completed within the fiscal year and 5 were carried forward to 2015/16.

In addition, from April 1, 2014 to March 31, 2015, CATSA received 15 consultations under the *Access to Information Act* from other federal departments. All requests were completed within the fiscal year with no requests carried forward to 2015/16. CATSA also received 6 informal *Access to Information* requests for 10 packages that were previously released.

For the same reporting period, CATSA received 7 requests under the *Privacy Act*, all of which were completed within the fiscal year.

## **Employment Equity and Multiculturalism**

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 finalizing its three year employment equity plan. The launch of this plan was postponed until 2015.

## **Environmental Assessment**

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

## **Public Service Disclosure Protection Act**

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

CATSA reports annually to the Office of the Chief Human Resources Officer on the activities respecting disclosures made under the PSDPA within the organization as well as any awareness activities undertaken during the year to inform employees about the PSDPA and the mechanisms available to them for disclosures of wrongdoing. In 2014/15, 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, 2015

Management's Discussion and Analysis (MD&A) outlines CATSA's financial results and operational changes for the year ended March 31, 2015. This MD&A should be read in conjunction with CATSA's audited annual financial statements and accompanying notes for the year ended March 31, 2015, 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 11, 2015, 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 increased from 3.0% in 2013 to an estimated 3.3% in 2014. It is expected to remain at 3.3% in 2015 and increase to 3.6% in 2016 and 2017. In Canada, the economy grew by 2.5% in 2014, and is projected to grow by 1.9% in 2015 and 2.5% in 2016. It is expected that growth will slow to 2.0% in 2017.<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 3.4%<sup>2</sup> in 2015 compared to 2014, 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 are expected to increase annually over the term of the ASSAs, putting further pressure on CATSA's budget for screening hours.

## **Foreign Exchange**

Recently, the Canadian dollar has weakened, with a U.S.-Canada exchange rate of 1.27 as at March 31, 2015 compared to 1.11 as at March 31, 2014. In addition, economic forecasts project a further weakening of the Canadian dollar.

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

<sup>1</sup> Bank of Canada, *Monetary Policy Report*, April 2015.

<sup>2</sup> SNC Lavalin Inc., *February 2015, Air Passenger Traffic Forecasts for CATSA Designated Airports*.

## Government Funding

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

Given passenger growth and billing rate increases, the funding provided in Budget 2010 did not allow CATSA to maintain the service level it achieved in previous years, despite significant screening efficiency improvements. In April 2015, CATSA was informed that its reference levels will be adjusted for 2015/16, which will allow the organization to achieve a wait time service level comparable to that achieved in 2014/15. CATSA will continue to work with Transport Canada to develop possible solutions to address funding pressures that are anticipated for 2016/17 and beyond.

In addition, CATSA received incremental funding of \$282.4 million for the period 2014/15 to 2016/17, in support of the strengthened ICAO standard on NPS and security controls.

CATSA also continues to work with Transport Canada to develop cost reduction strategies. In 2011/12, as part of the Government of Canada's Economic Action Plan 2012 Spending Review, CATSA submitted proposals totalling \$59.7 million in annual operating savings (11.7% of its review base). The Government of Canada approved certain of these proposals, resulting in annual savings of \$32.1 million starting in 2013/14. In addition, CATSA was informed that it would be required to put forward new proposals to fulfill a total revised savings commitment of \$51.3 million (10% of its review base). Accordingly, during the year, CATSA worked with Transport Canada to finalize the implementation plan for the revised savings commitment. These cost reductions will not impact CATSA's front-line security mandate.

## 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*. An updated framework was released by the Committee of Sponsoring Organizations of the Treadway Commission in May 2013, and CATSA has adopted the update in its program.

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 2014/15 compared to 2013/14.

<b>Key Financial Highlights - Statement of Comprehensive Income</b>				
(Thousands of Canadian dollars)	2014/15	2013/14	\$ Variance	% Variance
<b>Expenses<sup>1</sup></b>				
Screening services and other related costs	\$ 404,650	\$ 351,401	\$ 53,249	15%
Equipment operating and maintenance	46,942	46,588	354	1%
Program support and corporate services	77,191	78,203	(1,012)	(1%)
Depreciation and amortization	54,465	61,419	(6,954)	(11%)
<b>Total expenses</b>	<b>\$ 583,248</b>	<b>\$ 537,611</b>	<b>\$ 45,637</b>	<b>8%</b>
<b>Total other expenses</b>	<b>108</b>	<b>1,501</b>	<b>(1,393)</b>	<b>(93%)</b>
<b>Financial performance before government funding</b>	<b>\$ 583,356</b>	<b>\$ 539,112</b>	<b>\$ 44,244</b>	<b>8%</b>
<b>Government funding</b>				
Parliamentary appropriations for operating expenses	\$ 542,942	\$ 475,927	\$ 67,015	14%
Amortization of deferred government funding related to capital expenditures	55,029	62,965	(7,936)	(13%)
<b>Total government funding</b>	<b>\$ 597,971</b>	<b>\$ 538,892</b>	<b>\$ 59,079</b>	<b>11%</b>
<b>Financial performance</b>	<b>\$ 14,615</b>	<b>\$ (220)</b>	<b>\$ 14,835</b>	<b>6,743%</b>
<b>Other comprehensive income (loss)</b>	<b>\$ (14,373)</b>	<b>\$ 9,562</b>	<b>\$ (23,935)</b>	<b>(250%)</b>
<b>Total comprehensive income</b>	<b>\$ 242</b>	<b>\$ 9,342</b>	<b>\$ (9,100)</b>	<b>(97%)</b>

<sup>1</sup> The Statement of Comprehensive Income presents operating expenses by program activity, whereas operating expenses above are presented by major expense category, as disclosed in note 12 of the audited annual financial statements for the year ended March 31, 2015.

## Screening Services and Other Related Costs

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

Payments to screening contractors are the most significant expenditure for CATSA, representing approximately 75% of total expenses (excluding depreciation and amortization). These expenses consist of payments to third-party contractors for services performed by screening officers. Key variables impacting these costs include the number of screening hours purchased and billing rates.

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

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

Screening services and other related costs increased by \$53,249 (15%) in 2014/15. This is primarily due to increases in screening hours purchased of approximately \$37.6 million, coupled with annual contractual billing rate increases of approximately \$10.4 million.

During the year, CATSA enhanced its NPS coverage at the highest risk airports across Canada, in support of the strengthened ICAO standard on NPS and security controls. This resulted in an increase in screening hours purchased for both access points within the terminal buildings and for vehicles entering restricted areas of the aerodrome.

CATSA was able to reallocate surplus NPS funds as a result of some delays in the implementation of the Enhanced NPS program. This allowed CATSA to purchase additional screening hours at the PBS checkpoints and partially mitigate increasing passenger wait time pressures during peak periods.

## 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 costs associated with training and certification of equipment maintenance technologists for new technology deployed at airports across Canada, and the cost of biometric security cards purchased.

Equipment operating and maintenance costs for 2014/15 were comparable to the prior year.

## 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 costs for 2014/15 were comparable to the prior year.

## Depreciation and Amortization

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

Depreciation and amortization decreased by \$6,954 (11%) in 2014/15. The decrease is primarily due to a revision of the estimated useful life of certain HBS assets, as a result of the multi-year, HBS Recapitalization Program. The decrease is also due to certain computers, integrated software and electronic equipment becoming fully amortized during the year.

## 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 \$67,015 (14%) in 2014/15. The increase is primarily due to higher spending in screening services and other related costs, as discussed above, as well as higher 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 decreased by \$7,936 (13%) in 2014/15. The decrease resulted from the reduction in depreciation and amortization, as discussed above.

### Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of the net actuarial gains (losses) associated with CATSA's defined benefit plans. The variance in other comprehensive income (loss) compared to the prior year is explained in the Employee Benefits section.

## Liquidity And Capital Resources

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

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

Liquidity and Capital Resources (Thousands of Canadian dollars)	March 31, 2015	March 31, 2014	\$ Variance
Cash	\$ 7,981	\$ 6,191	\$ 1,790
Trade and other receivables	94,297	112,640	(18,343)
Trade and other payables	100,443	118,831	(18,388)
Current portion of provisions	335	-	335
Employee benefits transfer deficiency	1,500	-	1,500



Trade and other receivables decreased by \$18,343 in 2014/15 as a result of less parliamentary appropriations being owed to CATSA at year-end. Trade and other payables decreased by \$18,388 in 2014/15 as a result of a lower number of outstanding invoices for capital purchases and screening contractors compared to the prior year. Other items as at March 31, 2015 remained comparable 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 system, and CATSA's network infrastructure and corporate management systems.

Property and equipment and intangible assets represent 70% of total assets as at March 31, 2015. In 2014/15, capital expenditures for EDS and non-EDS totalled \$76,852, as summarized below:

Capital Expenditures (Thousands of Canadian dollars)	2014/2015	2013/2014	\$ Variance
EDS	\$ 69,583	\$ 77,812	\$ (8,229)
Non-EDS	7,269	3,459	3,810
<b>Total capital expenditures</b>	<b>\$ 76,852</b>	<b>\$ 81,271</b>	<b>\$ (4,419)</b>



EDS capital expenditures related to the following projects:

- ongoing deployment of the 3-level HBS system at Transborder and Domestic/International terminals, in support of the HBS Recapitalization Program;
- deployment of EDS equipment and interim vehicle screening facilities in support of the Enhanced NPS program; and
- continued deployment of EDS trace equipment as part of life-cycle management.

Non-EDS capital expenditures related to the following projects:

- deployment of network and system infrastructure in support of the Enhanced NPS program;
- installation of sensors and electronic gates at the PBS checkpoints of Edmonton International Airport in support of the QMS pilot project; and
- life-cycle management of RAIC equipment and corporate systems.



## Employee Benefits

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

Employee Benefits (Thousands of Canadian dollars)	March 31, 2015	March 31, 2014	\$ Variance
Employee benefits asset	\$ 12,155	\$ 8,020	\$ 4,135
Employee benefits liability	(21,745)	(16,097)	(5,648)
<b>Net employee benefits liability</b>	<b>\$ (9,590)</b>	<b>\$ (8,077)</b>	<b>\$ (1,513)</b>



As at March 31, 2015, the employee benefits asset represents the excess of cumulative funding contributions over cumulative employee benefits cost for CATSA's RPP and SRP. The employee benefits liability consists of the present value of the defined benefit liability of the ODBP.

CATSA's independent actuary determines each plan's net position as at March 31 of each year. The net position fluctuates from year to year due to a combination of variables, including the inflation rate, number of employees, discount rate, expected average rate of salary increases, expected average remaining service lifetime of active employees, returns on

plan asset and contributions. Note 11 of the annual audited financial statements provides further details regarding the underlying assumptions used in determining the net position.

The variance in the net employee benefits liability is primarily due to actuarial losses mainly associated with a decrease in discount rate, and the current year cost of the ODBP, for which benefits accumulate without being funded. This is partially offset by higher contributions toward the solvency deficit of the RPP and greater investment returns than projected for the two funded defined benefit pension plans.



## 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 Total Expenses to Operating Appropriations Used</b>			
(Thousands of Canadian dollars)	<b>2014/15</b>	<b>2013/14</b>	<b>\$ Variance</b>
<b>Total expenses</b>	<b>\$ 583,248</b>	\$ 537,611	\$ 45,637
<b>Finance income, finance cost, foreign exchange loss and miscellaneous income</b>	<b>(444)</b>	30	(474)
<b>Non-cash operating expenses</b>			
Depreciation and amortization	<b>(54,465)</b>	(61,419)	6,954
Spare parts expense funded from capital <sup>1</sup>	<b>(12)</b>	(75)	63
Employee benefits expense <sup>2</sup>	<b>14,360</b>	(453)	14,813
Deferred lease incentives <sup>3</sup>	<b>255</b>	233	22
<b>Parliamentary appropriations for operating expenses</b>	<b>\$ 542,942</b>	<b>\$ 475,927</b>	<b>\$ 67,015</b>
<b>Other items affecting funding</b>			
Net change in prepaids and inventories <sup>4</sup>	<b>892</b>	(489)	1,381
<b>Total operating appropriations used</b>	<b>\$ 543,834</b>	<b>\$ 475,438</b>	<b>\$ 68,396</b>

<sup>1</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>2</sup> Employee benefits are accounted for in the Statement of Comprehensive Income in accordance with IFRS. Based on the TBS's *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*, CATSA is permitted to draw funds from the Consolidated Revenue Fund based on its short-term needs. The amount of funding to be drawn down is determined by a solvency and going concern valuation performed by CATSA's actuary in accordance with the *Pension Benefits Standard Act*. The drawdown of funding for employee benefits is not equal to the expense for accounting purposes under IFRS, creating a reconciling item.

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

<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 2014/15 and the operating budget as reported in CATSA's *Summary of the 2014/15 – 2018/19 Corporate Plan*:

<b>Operating Appropriations Used Compared to Corporate Plan</b>				
(Thousands of Canadian dollars)	<b>Actual 2014/15</b>	<b>Corporate Plan Budget 2014/15</b>	<b>\$ Variance</b>	<b>% Variance</b>
<b>Operating expenses</b>				
Screening services and other related costs	<b>\$ 404,650</b>	\$ 403,225	\$ 1,425	-
Equipment operating and maintenance	<b>46,942</b>	48,615	(1,673)	(3%)
Program support and corporate services	<b>77,191</b>	93,647	(16,456)	(18%)
Other adjustments <sup>1</sup>	<b>15,051</b>	-	15,051	-
<b>Total operating appropriations used</b>	<b>\$ 543,834</b>	\$ 545,487	\$ (1,653)	-

<sup>1</sup> Other adjustments include finance income, finance cost, foreign exchange loss, non-cash operating expenses (excluding depreciation and amortization), and net change in prepaids and inventories as shown in the previous table.



The *Summary of the 2014/15 – 2018/19 Corporate Plan* budget figures were prepared excluding the non-cash portion of pension expenses, as they cannot be forecasted with accuracy for the planned period. Pension adjustments are inherently complex and rely on assumptions that are linked to future market conditions. In the current year, other adjustments consist primarily of a non-cash employee benefits adjustment to reflect the most recent pension accounting valuation under IFRS.

Parliamentary appropriations used for operating expenses were in line with the approved operating budget as reported in CATSA's *Summary of the 2014/15–2018/19 Corporate Plan*.

## Capital Expenditures

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

Reconciliation of Capital Acquisitions to Capital Appropriations Used (Thousands of Canadian dollars)	2014/15	2013/14	\$ Variance
EDS	\$ 69,583	\$ 77,812	\$ (8,229)
Non-EDS	7,269	3,459	3,810
<b>Total capital asset acquisitions</b>	<b>\$ 76,852</b>	<b>\$ 81,271</b>	<b>\$ (4,419)</b>
Proceeds on disposal of property and equipment	(52)	(32)	(20)
<b>Total capital appropriations used</b>	<b>\$ 76,800</b>	<b>\$ 81,239</b>	<b>\$ (4,439)</b>

The following table provides a comparison between capital appropriations used in 2014/15 and the capital budget as reported in CATSA's *Summary of the 2014/15 – 2018/19 Corporate Plan*:

Capital Appropriations Used Compared to Corporate Plan						
(Thousands of Canadian dollars)	Actual 2014/15	Corporate Plan Budget 2014/15	Capital Re-profile Pending Approval	Revised Capital Budget 2014/15	\$ Variance	% Variance
<b>EDS</b>						
PBS equipment and integration	\$ 2,036	\$ 3,051	\$ (1,211)	\$ 1,840	\$ 196	11%
HBS equipment and integration	61,893	98,182	(34,135)	64,047	(2,154)	(3%)
NPS equipment and integration	5,654	8,808	(3,035)	5,773	(119)	(2%)
<b>Total EDS</b>	<b>\$ 69,583</b>	<b>\$ 110,041</b>	<b>\$ (38,381)</b>	<b>\$ 71,660</b>	<b>\$ (2,077)</b>	<b>(3%)</b>
<b>Non-EDS</b>	<b>7,269</b>	<b>9,483</b>	<b>(2,733)</b>	<b>6,750</b>	<b>519</b>	<b>8%</b>
<b>Total capital asset acquisitions</b>	<b>\$ 76,852</b>	<b>\$ 119,524</b>	<b>\$ (41,114)</b>	<b>\$ 78,410</b>	<b>\$ (1,558)</b>	<b>(2%)</b>
Proceeds on disposal of property and equipment	(52)	-	-	-	(52)	-
<b>Total capital appropriations used</b>	<b>\$ 76,800</b>	<b>\$ 119,524</b>	<b>\$ (41,114)</b>	<b>\$ 78,410</b>	<b>\$ (1,610)</b>	<b>(2%)</b>



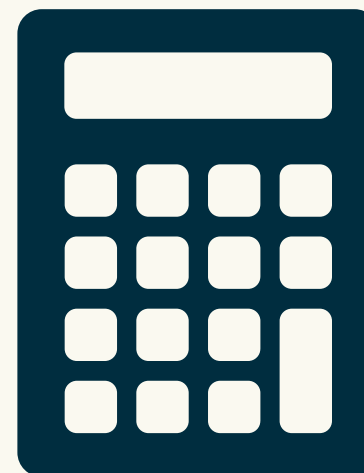
Parliamentary appropriations used for capital expenditures in 2014/15 totalled \$76,800, compared to the *Summary of the 2014/15 – 2018/19 Corporate Plan* budget of \$119,524. CATSA is currently seeking approval for the re-profile of capital funds to future years, which primarily relates to revisions in timing for the HBS Recapitalization Program.

As this large-scale, ten-year project continues to advance, CATSA must adapt to the work plans and resource availability of the affected airports. After taking into consideration the pending capital re-profile, total capital expenditures were in line with the revised capital budget.

Financial Statements of

# Canadian Air Transport Security Authority

Year ended March 31, 2015



# Management's Responsibility Statement

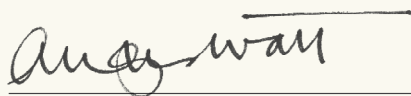
Year ended March 31, 2015

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.

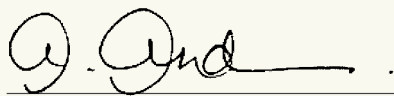
Management maintains a system of financial management and internal control designed to provide reasonable assurance that the financial information is reliable, assets are safeguarded, and transactions are in accordance with Part X of the *Financial Administration Act* and the *Canadian Air Transport 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 fulfils its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee, which is composed of directors who are not employees of CATSA. The Audit Committee meets regularly with management, the Internal Auditor and with the Office of the Auditor General of Canada (OAG). The OAG has full and unrestricted access to the Audit Committee to discuss their findings. The Board of Directors, upon recommendation of the Audit Committee, reviews and approves the financial statements.

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



**Angus Watt**  
*President and Chief Executive Officer*



**Andie Andreou, CPA, CA**  
*Vice-President and Chief Financial Officer*

June 11, 2015



## 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, 2015, 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, 2015, 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 directive issued pursuant to section 89 of the *Financial Administration Act* described in Note 1 to the financial statements.

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

June 11, 2015  
Ottawa, Canada

# Statement of Financial Position

(In thousands of Canadian dollars)

	As at March 31	
	2015	2014
<b>Assets</b>		
Current assets		
Cash	\$ 7,981	\$ 6,191
Trade and other receivables (note 5)	94,297	112,640
Inventories (note 6)	17,980	17,065
Prepaid expenses	2,865	2,888
	123,123	138,784
Non-current assets		
Employee benefits (note 11)	12,155	8,020
Property and equipment (note 7)	311,784	288,040
Intangible assets (note 8)	2,784	4,757
	326,723	300,817
	\$ 449,846	\$ 439,601
<b>Liabilities and Equity</b>		
Current liabilities		
Trade and other payables	\$ 100,443	\$ 118,831
Provisions (note 9)	335	-
Deferred government funding related to operating expenses (note 10)	20,845	19,953
	121,623	138,784
Non-current liabilities		
Deferred lease incentives	798	1,053
Deferred government funding related to capital expenditures (note 10)	314,568	292,797
Employee benefits (note 11)	21,745	16,097
	337,111	309,947
Equity		
Accumulated deficit	(8,888)	(9,130)
	\$ 449,846	\$ 439,601

Contractual arrangements (note 14) and contingent liabilities (note 18).  
The accompanying notes are an integral part of these financial statements.

Approved by the Board and authorized for issue on June 11, 2015:



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



**Angus Watt**  
President and Chief Executive Officer



## Statement of Comprehensive Income

(In thousands of Canadian dollars)

	Years ended March 31	
	2015	2014
Expenses		
Pre-Board Screening	\$ 319,812	\$ 307,998
Hold Baggage Screening	141,340	138,448
Non-Passenger Screening	73,368	38,229
Restricted Area Identity Card Program	3,370	3,947
Corporate services	45,358	48,989
Total expenses (note 12)	583,248	537,611
Other expenses (income)		
Foreign exchange loss	1,027	516
Loss on property and equipment	404	950
Write-off of intangible assets (note 8)	148	521
Finance cost	3	3
Miscellaneous income	(971)	-
Finance income	(503)	(489)
Total other expenses (income)	108	1,501
Financial performance before government funding	583,356	539,112
Government funding		
Parliamentary appropriations for operating expenses (note 10)	542,942	475,927
Amortization of deferred government funding related to capital expenditures (note 10)	55,029	62,965
Total government funding	597,971	538,892
Financial performance	\$ 14,615	\$ (220)
Other comprehensive income (loss)		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 11)	(14,373)	9,562
Total comprehensive income	\$ 242	\$ 9,342

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

## Statement of Changes in Equity

(In thousands of Canadian dollars)

	Accumulated deficit
Balance, April 1, 2013	\$ (18,472)
Financial performance	(220)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 11)	9,562
Balance, March 31, 2014	\$ (9,130)

	Accumulated deficit
Balance, April 1, 2014	\$ (9,130)
Financial performance	14,615
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 11)	(14,373)
Balance, March 31, 2015	\$ (8,888)

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

## Statement of Cash Flows

(In thousands of Canadian dollars)

	Years ended March 31	
	2015	2014
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ 14,615	\$ (220)
Items not involving cash		
Depreciation of property and equipment (note 12)	51,405	56,774
Amortization of intangible assets (note 12)	3,060	4,645
Loss on property and equipment	404	950
Write-off of intangible assets (note 8)	148	521
Other non-cash transactions	12	25
Amortization of deferred government funding related to capital expenditures (note 10)	(55,029)	(62,965)
Increase (decrease) in net employee benefits liability (note 17)	(12,860)	453
Decrease in deferred lease incentives	(255)	(233)
Net change in non-cash working capital balances (note 17)	(9,280)	(7,542)
	(7,780)	(7,592)
Investing activities		
Parliamentary appropriations received for capital funding	100,239	49,398
Purchase of property and equipment	(89,434)	(42,966)
Purchase of intangible assets	(1,235)	(1,725)
	9,570	4,707
Increase (decrease) in cash	1,790	(2,885)
Cash, beginning of year	6,191	9,076
Cash, end of year	\$ 7,981	\$ 6,191

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, 2015

## 1. Authority, mandate and programs

CATSA was established pursuant to the *CATSA Act* on April 1, 2002. CATSA is a Crown corporation listed under Part I, Schedule III of the *Financial Administration Act* and is an agent of Her Majesty in right of Canada.

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

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

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

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

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

CATSA has been informed of the Government's intention to require Crown corporations to implement pension plan reforms. These are intended to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions, to be phased in for all members by December 31, 2017; and a Directive in this regard was issued in December 2014 (PC 2014-1382). CATSA has already begun taking action to implement the spirit and intent of these reforms.

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

### 2. Basis of preparation

The financial statements have been prepared in accordance with IFRS as adopted by the Accounting Standards Board of Canada.

### 3. Summary of significant accounting policies

#### (a) Basis of measurement

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

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### (b) Use of estimates and judgments

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

- note 3(d)(e), note 7 and note 8 – Property and equipment and intangible assets

Key estimates used for property and equipment and intangible assets include the useful lives of assets and valuation of work-in-progress.

- note 3(i) and note 11 – Employee benefits

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

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

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

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

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

- note 3(j) and note 18 – Provisions and contingent liabilities

Judgments are required in determining the existence of a legal or constructive obligation and in assessing the probability of an outflow of future economic benefits.

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### (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.

### (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 engineers or management, depending on management's assessment of risk.

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

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

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### (ii) Subsequent costs

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

### (iii) Depreciation

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

Asset class	Useful life
PBS equipment	3-10 years
HBS equipment	3-19 years
NPS equipment	2-10 years
RAIC equipment	5 years
Computers, integrated software and electronic equipment	1-5 years
Office furniture and equipment	3-5 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of the related lease term or estimated useful life.

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



## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### (e) Intangible assets

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

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

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

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

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

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### (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.

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 impaired if they are no longer able to contribute to CATSA's mandate. In addition, the estimated useful lives of remaining property and equipment and intangible assets are reviewed and adjustments to amortization/depreciation 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

#### (i) *Non-derivative financial assets and liabilities*

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

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

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

Non-derivative financial liabilities are comprised of trade and other payables. Non-derivative financial liabilities are recognized initially on the trade date at which CATSA becomes a party to the contractual provisions of the instrument. CATSA derecognizes a non-derivative financial liability when its contractual obligations are discharged, cancelled or expired.

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

### (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. 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, 2015

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.

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

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

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

### *(ii) Post-employment benefit plan – defined contribution*

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

### *(iii) Termination benefits*

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

### *(iv) Short-term employee benefits*

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

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### (j) Provisions and contingent liabilities

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. Unless the possibility of an outflow of resources embodying economic benefits is remote, a contingent liability is disclosed when:

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

### (i) Disputed claims

In the normal course of operations, CATSA receives claims requesting monetary compensation from various parties. A provision is accrued to the extent management believes 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 costs associated with the disposal of certain screening equipment in an environmentally responsible manner, and the restoration of leased premises to an agreed upon standard at the end of the lease.

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

To the extent that it is probable that these costs result in an outflow of economic benefits, CATSA recognizes a provision for decommissioning liabilities, and the costs are capitalized as part of the carrying amount of the related asset and depreciated over the asset's estimated useful life.

### (k) Government funding

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

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

Upon the disposal of funded depreciable assets, the related remaining deferred government funding is recognized in financial performance in the period of disposal.

Unused parliamentary appropriations at year-end are lapsed or re-profiled to future years.

### (l) Deferred lease incentives

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

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

- (m) **Finance income**  
Finance income is comprised primarily of interest income derived from cash balances and is recognized in financial performance in the year it is earned.
- (n) **Finance cost**  
Finance cost is comprised primarily of interest expense and is recognized in financial performance in the year it is incurred.
- (o) **Foreign currency translation**  
Foreign currency transactions are translated using exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation, using year-end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognized in financial performance. Non-monetary assets and liabilities are translated using exchange rates prevailing at the dates the assets are acquired or the obligations are incurred.
- (p) **Change in accounting policy**  
*IAS 32, Financial instruments: presentation* was amended to provide further guidance to the criteria for offsetting financial assets and financial liabilities and presenting the net amount in the Statement of Financial Position. CATSA adopted the amendment effective April 1, 2014 for the current reporting period. Upon adoption of the amended standard, there was no change in presentation of CATSA's offsetting assets and liabilities.
- (q) **Future changes in accounting policies**  
Certain new accounting standards and amendments have been published which are not required to be adopted for the current reporting period. As at the date of these financial statements, the following applicable standards and amendments have been issued but are not yet effective:



## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

- *IAS 19, Employee benefits*, was amended to clarify the application of the standard to plans that require employees or third parties to contribute towards the cost of benefits. CATSA does not expect any changes to the accounting for employee benefits as a result of applying this amendment. The amendment is effective for annual periods beginning on or after July 1, 2014, and CATSA intends to adopt the amendment effective April 1, 2015; and
- *IFRS 9, Financial instruments*, was issued to replace *IAS 39, Financial instruments: recognition and measurement*, and provides guidance for: a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.

With respect to financial assets, all recognized assets that are currently within the scope of *IAS 39* will be subsequently measured at either amortized cost or fair value, depending on the type and characteristics of the instrument being held. With respect to financial liabilities, the requirements under this standard are mostly unchanged from *IAS 39*. However, changes in the fair value of liabilities designated as fair value through profit or loss that are attributable to changes in credit risk will be presented in other comprehensive income or loss, unless accounting mismatches of profit or loss are created. In addition, changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

The impairment model under *IFRS 9* reflects expected credit losses, as opposed to incurred credit losses, under *IAS 39*. It is no longer necessary for a credit event to have occurred before credit losses are recognized.

With respect to hedge accounting, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, and the effectiveness test has been revised. The requirement for retrospective assessment of hedge effectiveness has been removed. In addition, disclosure requirements of an entity's risk management activities are more rigorous.

The impact of adoption on CATSA has not yet been determined. The standard is effective for annual periods beginning on or after January 1, 2018, and CATSA intends to adopt the standard effective April 1, 2018.

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### 4. Financial instruments

As part of its operations, CATSA enters into transactions that have exposures to financial risks such as market and liquidity risks.

#### (a) Market risk

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

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

	USD	CAD
March 31, 2015	\$ 3,471	\$ 4,396
March 31, 2014	25,307	27,975

Assuming all other variables remain constant, a 5% depreciation or appreciation of the USD against the CAD would result in an increase/decrease in financial performance of \$220 (2014 – \$1,399).

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

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### (b) Liquidity risk

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

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

	Less than 3 months	3 to less than 6 months	6 months to 1 year	Total
March 31, 2015	\$ 84,179	\$ 4,428	\$ 12,171	\$ 100,778
March 31, 2014	\$ 117,203	\$ 646	\$ 982	\$ 118,831

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

### 5. Trade and other receivables

Trade and other receivables are comprised of:

	March 31, 2015	March 31, 2014
Parliamentary appropriations	\$ 77,634	\$ 96,677
GST and HST recoverable	14,438	14,146
PST recoverable	1,922	1,741
Other	303	76
	\$ 94,297	\$ 112,640

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### 6. Inventories

Inventories are comprised of:

	March 31, 2015	March 31, 2014
Spare parts	\$ 16,407	\$ 15,381
RAIC	855	224
Uniforms	718	1,460
	\$ 17,980	\$ 17,065

During the year, inventories totalling \$6,033 (2014 – \$5,720) were charged to expenses. This includes \$1,016 (2014 – \$1,308) resulting from a write-down of inventories. It also includes an amount of \$820 (2014 – \$816) resulting from a reversal of previous write-downs due to a change related to the expected use of some spare parts previously identified as obsolete, and an increase in the replacement cost of certain spare parts.

## Notes to Financial Statements

(In thousands of Canadian dollars) Year ended March 31, 2015

### 7. Property and equipment

A reconciliation of property and equipment is as follows:

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equipment	Leasehold improve- ments	Work- in-progress	Total
<b>Cost</b>									
Balance, April 1, 2013	\$ 122,207	\$ 656,242	\$ 5,167	\$ 5,553	\$ 24,116	\$ 435	\$ 10,236	\$ 32,447	\$ 856,403
Additions	2,575	7,537	35	-	1,298	-	-	68,101	79,546
Disposals	(3,138)	(34,245)	(15)	(46)	(23)	-	-	-	(37,467)
Write-offs	(592)	(261)	(4)	(969)	(2,501)	(340)	(117)	(68)	(4,852)
Reclassifications	364	24,218	-	-	554	-	-	(25,136)	-
Balance, March 31, 2014	\$ 121,416	\$ 653,491	\$ 5,183	\$ 4,538	\$ 23,444	\$ 95	\$ 10,119	\$ 75,344	\$ 893,630
Balance, April 1, 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
<b>Accumulated depreciation</b>									
Balance, April 1, 2013	\$ 57,913	\$ 498,795	\$ 2,468	\$ 3,386	\$ 18,608	\$ 435	\$ 8,473	\$ -	\$ 590,078
Depreciation	8,805	42,181	392	809	3,882	-	705	-	56,774
Disposals	(2,919)	(33,765)	(15)	(38)	(23)	-	-	-	(36,760)
Write-offs	(446)	(217)	(4)	(887)	(2,491)	(340)	(117)	-	(4,502)
Balance, March 31, 2014	\$ 63,353	\$ 506,994	\$ 2,841	\$ 3,270	\$ 19,976	\$ 95	\$ 9,061	\$ -	\$ 605,590
Balance, April 1, 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
<b>Carrying amounts</b>									
As at March 31, 2014	\$ 58,063	\$ 146,497	\$ 2,342	\$ 1,268	\$ 3,468	\$ -	\$ 1,058	\$ 75,344	\$ 288,040
As at March 31, 2015	\$ 53,781	\$ 133,212	\$ 5,889	\$ 805	\$ 4,661	\$ -	\$ 1,219	\$ 112,217	\$ 311,784

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

During the year, CATSA acquired \$75,617 (2014 – \$79,546) of property and equipment.

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

During the year, the estimated useful lives of certain HBS assets related to the recapitalization plan noted above were adjusted to reflect their expected decommissioning dates. The change in accounting estimate was accounted for on a prospective basis and decreased the current year depreciation expense by \$3,078. The decrease in depreciation expense was completely offset by a decrease in the amortization of deferred government funding related to capital expenditures. From 2015/16 to 2024/25, the depreciation expense and amortization of deferred government funding related to capital expenditures are expected to increase by as much as \$3,446 or decrease by as much as \$302 each year, totalling \$3,078 by 2024/25.

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

During the prior year, changes in estimated useful lives related to the recapitalization plan decreased the prior year depreciation expense by \$2,022. The decrease in depreciation expense was completely offset by a decrease in the amortization of deferred government funding related to capital expenditures. From 2014/15 to 2024/25, the depreciation expense and amortization of deferred government funding related to capital expenditures are expected to increase by as much as \$1,708 or decrease by as much as \$824 each year, totalling \$2,022 by 2024/25.

As at March 31, 2014, the estimated useful life of certain computers, integrated software and electronic equipment was revised from three to five years to better reflect the anticipated life-cycle management of these assets. The change in accounting estimate was accounted for on a prospective basis starting April 1, 2014, and decreased the 2014/15 depreciation expense by \$742. This decrease was completely offset by a decrease in the amortization of deferred government funding related to capital expenditures. From 2015/16 to 2018/19, the depreciation expense and amortization of deferred funding related to capital expenditures are expected to increase by as much as \$462 or decrease by as much as \$214 each year, totalling \$742 by 2018/19.

## Notes to Financial Statements

(In thousands of Canadian dollars) Year ended March 31, 2015

### 8. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
<b>Cost</b>				
Balance, April 1, 2013	\$ 4,285	\$ 19,119	\$ 301	\$ 23,705
Additions	856	805	64	1,725
Write-offs	(1,042)	(1,950)	-	(2,992)
Reclassifications	89	212	(301)	-
Balance, March 31, 2014	\$ 4,188	\$ 18,186	\$ 64	\$ 22,438
Balance, April 1, 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
<b>Accumulated amortization</b>				
Balance, April 1, 2013	\$ 3,120	\$ 12,387	\$ -	\$ 15,507
Amortization	716	3,929	-	4,645
Write-offs	(964)	(1,507)	-	(2,471)
Balance, March 31, 2014	\$ 2,872	\$ 14,809	\$ -	\$ 17,681
Balance, April 1, 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
<b>Carrying amounts</b>				
As at March 31, 2014	\$ 1,316	\$ 3,377	\$ 64	\$ 4,757
As at March 31, 2015	\$ 807	\$ 1,977	\$ -	\$ 2,784

During the year, management determined that certain development costs related to internally generated software no longer provided future economic benefit. As a result, intangible assets totalling \$148 (2014 – \$521) were expensed in the Statement of Comprehensive Income.

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, 2015

### 9. Provisions

Management accrues provisions for disputed claims from various parties requesting monetary compensation. The provisions recorded as at March 31, 2015 were established by management taking into account legal assessments, information presently available and other recourse. The amounts were classified as current and the expected future cash flows were not discounted, as the timing of the cash outflows associated with the disputed claims could not be reasonably determined.

A reconciliation of provisions for disputed claims is as follows:

	March 31, 2015	March 31, 2014
Balance, beginning of year	\$ -	\$ -
Provisions made in the year	335	-
Balance, end of year	\$ 335	\$ -

## Notes to Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2015

### 10. Deferred government funding

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

	March 31, 2015	March 31, 2014
<b>Deferred government funding related to operating expenses</b>		
Balance, beginning of year	\$ 19,953	\$ 20,442
Parliamentary appropriations used to finance operating expenses	543,834	475,438
Parliamentary appropriations recognized as government funding for operating expenses	(542,942)	(475,927)
Balance, end of year	\$ 20,845	\$ 19,953
<b>Deferred government funding related to capital expenditures</b>		
Balance, beginning of year	\$ 292,797	\$ 274,523
Parliamentary appropriations used to finance capital expenditures	76,800	81,239
Amortization of deferred government funding related to capital expenditures	(55,029)	(62,965)
Balance, end of year	\$ 314,568	\$ 292,797
Total deferred government funding, end of year	\$ 335,413	\$ 312,750

## Notes to Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2015

### 11. 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.

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

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 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 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 the three-year period ending December 31, 2017.

### (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, 2015

	RPP		SRP		ODBP	
	2015	2014	2015	2014	2015	2014
<b>Fair value of plan assets</b>						
Balance, beginning of year	\$ 119,028	\$ 94,190	\$ 5,164	\$ 4,425	\$ -	\$ -
<i>Included in financial performance</i>						
Interest income	5,953	4,412	251	205	-	-
Administration costs	(310)	(300)	(20)	(20)	-	-
<i>Included in other comprehensive income or loss</i>						
Remeasurement gain						
Return on assets excluding interest income	13,737	9,443	255	309	-	-
<i>Other</i>						
CATSA contributions	23,247	11,302	313	318	174	134
Plan participant contributions	3,010	2,749	13	3	-	-
Benefit payments and transfers	(2,471)	(2,768)	(73)	(76)	(174)	(134)
Balance, end of year	\$ 162,194	\$ 119,028	\$ 5,903	\$ 5,164	\$ -	\$ -
<b>Present value of defined benefit liabilities</b>						
Balance, beginning of year	\$ 112,417	\$ 97,529	\$ 3,755	\$ 3,814	\$ 16,097	\$ 14,458
<i>Included in financial performance</i>						
Current service cost	8,314	8,805	198	223	1,403	1,761
Interest expense	5,819	4,808	187	180	827	727
<i>Included in other comprehensive income or loss</i>						
Remeasurement loss (gain)						
Actuarial losses (gains) arising from changes in demographic assumptions	(224)	6,249	-	229	-	1,789
Actuarial losses (gains) arising from changes in financial assumptions	24,426	(6,410)	644	(177)	3,592	(1,149)
Actuarial losses (gains) arising from experience adjustments	318	1,455	(391)	(441)	-	(1,355)
<i>Other</i>						
Plan participant contributions	3,010	2,749	13	3	-	-
Benefit payments and transfers	(2,471)	(2,768)	(73)	(76)	(174)	(134)
Balance, end of year	\$ 151,609	\$ 112,417	\$ 4,333	\$ 3,755	\$ 21,745	\$ 16,097
Net employee benefits asset (liability)	\$ 10,585	\$ 6,611	\$ 1,570	\$ 1,409	\$ (21,745)	\$ (16,097)

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

	March 31, 2015	March 31, 2014
Employee benefits asset, end of year		
RPP	\$ 10,585	\$ 6,611
SRP	1,570	1,409
	12,155	8,020
Employee benefits liability, end of year		
ODBP	(21,745)	(16,097)
	(21,745)	(16,097)
Employee benefits - net liability, end of year	\$ (9,590)	\$ (8,077)

### (d) Employee benefits costs

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

	RPP		SRP		ODBP	
	2015	2014	2015	2014	2015	2014
<b>Defined benefit cost recognized in financial performance</b>						
Current service cost	\$ 8,314	\$ 8,805	\$ 198	\$ 223	\$ 1,403	\$ 1,761
Administration costs	310	300	20	20	-	-
Net interest on the net defined benefit asset or liability	(134)	396	(64)	(25)	827	727
Defined benefit cost	\$ 8,490	\$ 9,501	\$ 154	\$ 218	\$ 2,230	\$ 2,488
<b>Remeasurement of defined benefit plans recognized in other comprehensive income or loss</b>						
Return on plan assets excluding interest income	\$ 13,737	\$ 9,443	\$ 255	\$ 309	\$ -	\$ -
Actuarial gains (losses)	(24,520)	(1,294)	(253)	389	(3,592)	715
Remeasurement of defined benefit plans	\$ (10,783)	\$ 8,149	\$ 2	\$ 698	\$ (3,592)	\$ 715

Total remeasurement of defined benefit plans recognized in other comprehensive income or loss for the year ended March 31, 2015 is a loss of \$14,373 (2014 – gain of \$9,562). Defined benefit cost is recognized as employee costs in note 12, 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, 2015

### (e) Composition of plan assets

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

	March 31, 2015	March 31, 2014
<i>Investment Funds</i>		
Equity Securities		
Canadian Equity Fund	\$ 48,009	\$ 36,593
U.S. Equity Fund	1,291	1,002
International Equity Fund	48,405	36,664
Debt Securities		
Canadian Bond Fund	56,655	41,660
Real Estate	3,042	-
Other	8,120	5,952
<i>Canada Revenue Agency refundable tax account</i>	2,575	2,321
<b>Total plan assets, end of year</b>	<b>\$ 168,097</b>	<b>\$ 124,192</b>

The fair value of all equity, debt and real estate 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 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.

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### (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	
	2015	2014	2015	2014	2015	2014
<i>Present value of defined benefit liability</i>						
Discount rate	4.00%	4.75%	4.00%	4.75%	4.00%	4.75%
Long-term rate of compensation increase	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
Inflation	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
Mortality table	CPM-B	CPM-B	CPM-B	CPM-B	CPM-B	CPM-B
<i>Benefit costs</i>						
Discount rate	4.75%	4.50%	4.75%	4.50%	4.75%	4.50%
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					5.80%	6.50%
Ultimate medical cost trend rate					4.30%	4.30%
Year ultimate reached					2029	2029



## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

The sensitivity analysis below was determined based on changes to the respective assumptions occurring at March 31, 2015, while holding all other assumptions constant:

	Change	Impact on defined benefit liability
Increase in discount rate	1%	\$ (35,293)
Decrease in discount rate	1%	48,686
Increase in long-term rate of compensation increase	1%	14,431
Decrease in long-term rate of compensation increase	1%	(12,311)
Increase in inflation	1%	29,877
Decrease in inflation	1%	(23,524)
Increase in life expectancy	1 year	4,533
Decrease in life expectancy	1 year	(4,087)
Increase in assumed medical cost trend rate	1%	5,992
Decrease in assumed medical cost trend rate	1%	(4,396)

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, 2015

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, 2013	December 31, 2014
SRP	December 31, 2013	December 31, 2014
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, 2016 will total \$15,303, comprising of \$11,834 of CATSA contributions and \$3,469 of plan participant contributions.

Cash payments to be made to the unfunded ODBP for the year ended March 31, 2016 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, 2016 will total \$184.

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, 2015, the weighted average duration of the defined benefit obligation for the RPP, the SRP and the ODBP was 23.0 years (2014 – 22.5 years), 20.4 years (2014 – 20.1 years) and 24.8 years (2014 – 24.1 years), respectively.

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### (h) Employee benefits expense

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

	2015	2014
Employee costs (excluding post-employment and termination benefits)	\$ 44,214	\$ 45,310
Post-employment benefits		
Defined benefit pension plans and other defined benefits plan	10,874	12,207
Defined contribution pension plan	60	25
Termination benefits	1,362	326
<b>Total employee costs (note 12)</b>	<b>\$ 56,510</b>	<b>\$ 57,868</b>

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### 12. 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:

	2015	2014
Screening services and other related costs		
Payments to screening contractors	\$ 397,194	\$ 344,690
Uniforms and other screening costs	4,648	4,653
Trace and consumables	2,808	2,058
	404,650	351,401
Equipment operating and maintenance		
Equipment maintenance and spare parts	44,914	45,052
Training and certification	1,206	694
RAIC	822	842
	46,942	46,588
Program support and corporate services		
Employee costs	56,510	57,868
Operating leases	5,937	6,181
Office and computer expenses	5,251	4,373
Professional services and other business related costs	4,353	4,937
Other administrative costs	3,962	3,539
Communications and public awareness	1,178	1,305
	77,191	78,203
Depreciation and amortization		
Depreciation of property and equipment	51,405	56,774
Amortization of intangible assets	3,060	4,645
	54,465	61,419
	\$ 583,248	\$ 537,611

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, 2015

### 13. Government funding

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

	2015	2014
Parliamentary appropriations approved	\$ 676,186	\$ 598,286
Parliamentary appropriations to be re-profiled to future years - pending approval	(11,175)	(859)
Parliamentary appropriations to be re-profiled to future years - approved	-	(19,117)
Corporate Plan Summary budget	\$ 665,011	\$ 578,310
Parliamentary appropriations to be re-profiled to future years - approved	-	(7,566)
Parliamentary appropriations to be re-profiled to future years - pending approval	(41,114)	(11,678)
Unused portion of parliamentary appropriations	(3,263)	(2,389)
Total parliamentary appropriations used	\$ 620,634	\$ 556,677

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

	2015	2014
Parliamentary appropriations used to finance operating expenses (note 10)	\$ 543,834	\$ 475,438
Parliamentary appropriations used to finance capital expenditures (note 10)	76,800	81,239
Total parliamentary appropriations used	\$ 620,634	\$ 556,677

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

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

The following table provides the remaining pre-tax balance on these contractual arrangements as at March 31:

	2015	2014
Operating Capital	\$ 1,134,698 194,202	\$ 1,433,427 174,357
Total	\$ 1,328,900	\$ 1,607,784

The remaining balances on non-lease arrangements were previously reported on a post-tax basis. The amounts reported as at March 31, 2014 have been changed to conform to the current year's presentation. These amounts were previously reported as follows:

	2014 As previously reported
Operating Capital	\$ 1,500,522 174,744
Total	\$ 1,675,266

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### (b) Lease arrangements

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

	2015	2014
No later than 1 year	\$ 7,310	\$ 7,214
Later than 1 year and no later than 5 years	23,561	24,268
Later than 5 years	12,403	17,183

CATSA's most significant non-cancellable operating lease is the lease for office space at headquarters. The lease expires on November 30, 2017 and the option to renew for five additional years was exercised in the prior year. The renewal terms incorporated lease incentives not included in the original agreement, and an option to further extend the lease for an additional five years, subject to the same terms and conditions. There is no further right to extend after the expiry of the extension term and the rent during the option term will be based on the prevailing market rate at that time.

The minimum lease payments were previously reported on a post-tax basis. The amounts reported as at March 31, 2014 have been changed to conform to the current year's presentation. These amounts were previously reported as follows:

	2014 As previously reported
No later than 1 year	\$ 7,575
Later than 1 year and no later than 5 years	25,481
Later than 5 years	18,042

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### 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 and pursuant to authority given in the *CATSA Act*. These related party transactions are based on normal trade terms applicable to all individuals and corporations.

Income from these related parties amounted to \$597,971 (2014 – \$538,892), which represent parliamentary appropriations for operating expenses and amortization of deferred government funding related to capital expenditures. Expenses for these related parties amounted to \$12,920 (2014 – \$12,571), which include \$11,794 (2014 – \$11,330) in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

At year-end, amounts receivable from related parties were \$92,072 (2014 – \$110,480). These include \$14,438 (2014 – \$14,146) due from the Canada Revenue Agency for recoverable taxes paid on expenses and \$77,634 (2014 – \$96,677) 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 \$671 (2014 – \$301).



## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### (b) Key management personnel

As at March 31, 2015, key management personnel of CATSA are composed of the ten (2014 – 11) Board members and the six (2014 – 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:

	2015	2014
Salaries, other short-term employee benefits and termination benefits	\$ 2,579	\$ 1,722
Post-employment benefits	316	436
	\$ 2,895	\$ 2,158

Other than the above compensation, there were no other significant related party transactions involving key management personnel and their close family members for the years ended March 31, 2015 or March 31, 2014.

### (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 11. There were no other transactions during the year.

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

### 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, 2015	March 31, 2014
Cash	\$ 7,981	\$ 6,191
Trade and other receivables	94,297	112,640
Trade and other payables	(100,443)	(118,831)
Current portion of provisions	(335)	-
Employee benefits transfer deficiency	(1,500)	-
	\$ -	\$ -

CATSA's objectives, policies and processes for managing capital have not changed during the years ended March 31, 2015 or March 31, 2014.

CATSA is not subject to externally imposed capital requirements.

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

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

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

	2015	2014
Increase in trade and other receivables	\$ (5,096)	\$ (20,154)
Decrease (increase) in inventories	(915)	750
Decrease (increase) in prepaid expenses	23	(211)
Increase (decrease) in trade and other payables	(4,519)	12,562
Increase in current portion of provisions	335	-
Increase (decrease) in deferred government funding related to operating expenses	892	(489)
	\$ (9,280)	\$ (7,542)

Interest income received and recognized during the year totalled \$503 (2014 – \$486).

Interest expense paid and expensed during the year totalled \$3 (2014 – \$3).

The change in trade and other receivables excludes an amount of \$23,439 (2014 – \$31,841) 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 \$13,869 (2014 – \$36,548) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

## Notes to Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2015

The change in net employee benefits liability excludes an amount of \$14,373 (2014 – \$9,562) in relation to the remeasurement of defined benefit plans for the year presented in other comprehensive income or loss, as the amount relates to a non-cash remeasurement.

During the year, CATSA received non-cash proceeds of \$52 (2014 – \$32) 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 \$12 (2014 – \$50).

### 18. Contingent liabilities

#### (a) Disputed claims

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

#### (b) Decommissioning costs

CATSA has identified contingent liabilities associated with the removal of hazardous materials from certain EDS equipment, as well as with lease agreements. Since it is not probable that an outflow of economic resources will be required to settle these legal obligations, no provision has been recorded in the financial statements. Should the probabilities change in the future, the maximum undiscounted cash flow required to settle these liabilities between 2015/16 and 2025/26 (2014 – 2014/15 and 2024/25) is estimated to be \$1,608 (2014 – \$1,642). There is no agreement for potential reimbursements against the contingent liabilities.

# Glossary

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## **ASSA**

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

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## **BPSS**

Boarding Pass Security System: a stand-alone technology that scans boarding passes to validate barcodes, which ensures that boarding passes are not fraudulent and that they have not been tampered with.

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## **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.

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## **CBSA**

Canada Border Services Agency

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## **CSIS**

Canadian Security Intelligence Service

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**EDS**

Explosives Detection System

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**Global Entry**

Global Entry is a U.S. Customs and Border Protection trusted traveler program that provides expedited clearance for pre-approved, low-risk travelers upon arrival in the United States.

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**Harmonized Trusted Traveller**

The harmonized trusted traveller program introduces new screening procedures that 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 CA military, and air crew). The expanded program currently only applied to U.S. bound travel. The new steps were facilitated by the Beyond the Border Action Plan — an agreement signed between Canada and the U.S. in 2011 aimed at harmonizing the benefits to pre-approved, low-risk travelers on both sides of the border.

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**HBS**

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

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**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.

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**IFRS**

International Financial Reporting Standards

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## **NEXUS Program**

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

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## **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.

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## **PBS**

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

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## **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.

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## **RCMP**

Royal Canadian Mounted Police

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## **SO**

Screening Officer

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## **Trusted Traveller**

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 government and CATSA have expanded the definition of trusted traveller to include not only Nexus holders but also Global Entry members, uniformed air crews and members of the Canadian and U.S. armed forces.