# FINANCIAL STATEMENTS

*Canadian Air Transport Security Authority*

Year ended March 31, 2019

# MANAGEMENT'S RESPONSIBILITY STATEMENT

**Year ended March 31, 2019**

The financial statements contained in this annual report have been prepared by management in accordance with International Financial Reporting Standards (IFRS). The integrity and objectivity of the data in these financial statements are management's responsibility. Some of the information in the financial statements is based on management's best estimates and judgments and gives due consideration to materiality. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that the financial information is reliable, assets are safeguarded, and transactions are in accordance with Part X of the *Financial Administration Act* and the *Canadian Air Transport Security Authority Act*, executed in accordance with prescribed regulations within parliamentary authorities, and properly recorded to maintain accountability of government funds. CATSA's Internal Auditor has the responsibility for assessing its network of risk management, control and governance processes.

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

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

**Michael Saunders**
*President and Chief Executive Officer*

**Nancy Fitchett, CPA, CA**
*Acting Vice-President, Corporate Affairs and Chief Financial Officer*

June 6, 2019

Office of the Auditor General of Canada | Bureau du vérificateur général du Canada

# INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

## Report on the Audit of the Financial Statements

*Opinion*

We have audited the financial statements of the Canadian Air Transport Security Authority, which comprise the statement of financial position as at 31 March 2019, and the statement of comprehensive income (loss), statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Canadian Air Transport Security Authority as at 31 March 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

*Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Canadian Air Transport Security Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report is management's discussion and analysis included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Canadian Air Transport Security Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Canadian Air Transport Security Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Canadian Air Transport Security Authority's financial reporting process.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Canadian Air Transport Security Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Canadian Air Transport Security Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Canadian Air Transport Security Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on Compliance with Specified Authorities

*Opinion*

In conjunction with the audit of the financial statements, we have audited transactions of the Canadian Air Transport Security Authority coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canadian Air Transport Security Authority Act* and regulations, the by-laws of the Canadian Air Transport Security Authority, and the directives issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of the Canadian Air Transport Security Authority that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

*Responsibilities of Management for Compliance with Specified Authorities*

Management is responsible for the Canadian Air Transport Security Authority's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Canadian Air Transport Security Authority to comply with the specified authorities.

*Auditor's Responsibilities for the Audit of Compliance with Specified Authorities*

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

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

Ottawa, Canada
6 June 2019

# Statement of Financial Position

(In thousands of Canadian dollars)

| | As at March 31 | |
|---|---|---|
| | 2019 | 2018 |
| **Assets** | | |
| Current assets | | |
| Cash | $ 4,007 | $ 9,929 |
| Trade and other receivables (note 4) | 145,490 | 136,506 |
| Inventories (note 5) | 15,305 | 16,401 |
| Prepaid expenses | 3,253 | 3,133 |
| Derivative financial assets (note 13) | 495 | 360 |
| | 168,550 | 166,329 |
| Non-current assets | | |
| Property and equipment (note 6) | 455,524 | 416,438 |
| Intangible assets (note 7) | 15,715 | 8,665 |
| Employee benefits asset (note 10) | 5,728 | 5,030 |
| Derivative financial assets (note 13) | 42 | 24 |
| | 477,009 | 430,157 |
| Total assets | $ 645,559 | $ 596,486 |
| **Liabilities and Equity** | | |
| Current liabilities | | |
| Trade and other payables (note 13) | $ 129,719 | $ 132,868 |
| Holdbacks (note 13) | 12,433 | 9,349 |
| Deferred government funding related to operating expenses (note 9) | 18,558 | 19,534 |
| | 160,710 | 161,751 |
| Non-current liabilities | | |
| Holdbacks (note 13) | 7,767 | 4,338 |
| Deferred lease incentives | 482 | 442 |
| Deferred government funding related to capital expenditures (note 9) | 469,732 | 424,026 |
| Employee benefits liability (note 10) | 30,507 | 28,402 |
| | 508,488 | 457,208 |
| Equity | | |
| Accumulated deficit | (23,639) | (22,473) |
| Total liabilities and equity | $ 645,559 | $ 596,486 |

Contingencies (note 8) and contractual arrangements (note 14)
The accompanying notes are an integral part of these financial statements.

Approved by the Board and authorized for issue on June 6, 2019:

**Marguerite Nadeau**
*Chairperson*

**Michael Saunders**
*President and Chief Executive Officer*

# Statement of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

| | Years ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| **Expenses** | | |
| Pre-Board Screening | $ 443,997 | $ 396,410 |
| Hold Baggage Screening | 158,729 | 148,748 |
| Non-Passenger Screening | 137,634 | 133,402 |
| Restricted Area Identity Card Program | 3,045 | 3,234 |
| Corporate services | 46,061 | 43,234 |
| Total expenses (note 11) | 789,466 | 725,028 |
| **Other expenses (income)** | | |
| Loss on disposal of property and equipment | 611 | 518 |
| Write-off of property and equipment | 528 | 1,097 |
| Finance cost | 4 | 256 |
| Foreign exchange (gain) loss | (620) | 479 |
| Net gain on fair value of derivative financial instruments | (153) | (53) |
| Total other expenses (income) | 370 | 2,297 |
| Financial performance before revenue and government funding | 789,836 | 727,325 |
| **Revenue** | | |
| Supplemental screening services | 11,726 | 13,924 |
| Finance income | 979 | 638 |
| Miscellaneous income | 9 | 852 |
| Rental income | – | 255 |
| Total revenue | 12,714 | 15,669 |
| **Government funding** | | |
| Parliamentary appropriations for operating expenses (note 9) | 704,049 | 645,498 |
| Amortization of deferred government funding related to capital expenditures (note 9) | 65,147 | 60,525 |
| Total government funding | 769,196 | 706,023 |
| **Financial performance** | $ (7,926) | $ (5,633) |
| Other comprehensive income (loss) | | |
| Item that will not be reclassified to financial performance | | |
| Remeasurement of defined benefit plans (note 10) | 6,760 | (11,633) |
| Total comprehensive income (loss) | $ (1,166) | $ (17,266) |

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

# Statement of Changes in Equity

(In thousands of Canadian dollars)

| | | Accumulated deficit |
|---|---|---|
| **Balance, March 31, 2017** | $ | (5,207) |
| Financial performance | | (5,633) |
| Item that will not be reclassified to financial performance | | |
| Remeasurement of defined benefit plans (note 10) | | (11,633) |
| Balance, March 31, 2018 | $ | (22,473) |

| | | Accumulated deficit |
|---|---|---|
| **Balance, March 31, 2018** | $ | (22,473) |
| Financial performance | | (7,926) |
| Item that will not be reclassified to financial performance | | |
| Remeasurement of defined benefit plans (note 10) | | 6,760 |
| Balance, March 31, 2019 | $ | (23,639) |

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

# Statement of Cash Flows

(In thousands of Canadian dollars)

| | Years ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| **Cash flows provided by (used in)** | | |
| **Operating activities** | | |
| Financial performance | $ (7,926) | $ (5,633) |
| Items not involving cash | | |
| Depreciation of property and equipment (note 6 and 11) | 62,371 | 57,803 |
| Increase in net employee benefits liability | 8,167 | 6,489 |
| Amortization of intangible assets (note 7 and 11) | 1,780 | 1,145 |
| Loss on disposal of property and equipment | 611 | 518 |
| Write-off of property and equipment | 528 | 1,097 |
| Other non-cash transactions | 18 | (735) |
| Amortization of deferred government funding related to capital expenditures (note 9) | (65,147) | (60,525) |
| Change in fair value of financial instruments at fair value through profit and loss | (153) | (53) |
| Deferred lease incentives recognized in financial performance | (101) | (246) |
| Net change in working capital balances (note 17) | 30,570 | (41,563) |
| | 30,718 | (41,703) |
| **Investing activities** | | |
| Parliamentary appropriations received for capital funding | 87,292 | 77,409 |
| Purchase of property and equipment | (117,867) | (60,697) |
| Purchase of intangible assets | (6,096) | (1,359) |
| Proceeds on disposal of property and equipment | 31 | 12 |
| | (36,640) | 15,365 |
| Decrease in cash | (5,922) | (26,338) |
| Cash, beginning of year | 9,929 | 36,267 |
| Cash, end of year | $ 4,007 | $ 9,929 |

Supplementary cash flow information (note 17)
The accompanying notes are an integral part of these financial statements.

## 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* (FAA) 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 to it, subject to any terms and conditions that the Minister may establish. In carrying out its responsibilities, CATSA must do so in the public interest, having due regard to the interest of the travelling public.

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 prior to their entry to the secure area of an air terminal building;

2. **HBS –** the screening of passengers' checked (or hold) baggage to prevent the boarding of prohibited items;

3. **NPS –** the random screening of non-passengers and their belongings, including vehicles, entering restricted areas of the aerodrome at the highest risk airports; and

4. **RAIC Program –** the system which uses iris and fingerprint biometric identifiers to allow non-passengers access to the restricted areas of airports.

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

With the support of TC, CATSA entered into a Supplemental Screening Services agreement to trial cost recovery at PBS with the Greater Toronto Airports Authority (GTAA) for the provision of supplemental screening services effective October 5, 2014, and extended annually thereafter. CATSA also entered into a similar agreement with the Vancouver International Airport Authority (YVRAA) effective June 26, 2017. The YVRAA trial agreement ended June 30, 2018. CATSA recently received approval from TC to extend the ongoing agreement with GTAA until March 31, 2020, pursuant to the authorities introduced by Bill C-49.

CATSA also reached an agreement with the Muskoka Airport Authority for screening services over a 10-week period beginning in June 2019. CATSA has received final approval from TC.

In December 2014, the Governor in Council issued a Pension Plan Reform Directive (Order in Council P.C. 2014-1382), pursuant to Section 89 of the FAA, directing the Crown Corporations under the Minister of Transport's portfolio, including CATSA, to align with Budget 2013 direction on public sector pension reform. The pension reform included a provision for adjusting the employer/employee current service cost sharing ratio to 50:50 by December 31, 2017.

In July 2015, CATSA received notification that an exemption was available to pension plans that could demonstrate either unfairness to pension plan members, or recruitment and retention challenges, as a result of implementing the pension reform. Following this notification, CATSA began working with its external pension actuary to draft a business case for an exemption on the basis that the pension reform would be unfair to plan members. It is CATSA's view that its business case demonstrates that closing of the defined benefit pension plan in 2013 would result in an unfair cost sharing burden on employees, and that the cost sharing ratio should be calculated as if the plan were open to new members.

CATSA submitted the final version of its business case to TC in May 2017, with the understanding that it would be approved by the December 31, 2017 deadline. In December 2017, TC advised CATSA that the business case would not be approved by the deadline due to processing delays. TC continues to work with Treasury Board of Canada Secretariat to obtain the necessary approvals, which are expected in the upcoming months.

As of January 1, 2018, CATSA aligned its employee contribution rates with the objectives identified in the business case that is pending approval.

CATSA's Travel, Hospitality, Conference and Event Expenditures Policy is in compliance with Order in Council P.C. 2015-1114, a directive issued pursuant to Section 89 of the FAA, which requires CATSA's policies, guidelines and practices to be aligned with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations.

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. CATSA is a GST/HST registrant. As a GST/HST registrant, CATSA is obligated to collect and remit taxes on taxable services supplied to external parties and CATSA's pension plans.

## 2. Basis of preparation

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

## 3. Summary of significant accounting policies

### (a) Basis of measurement

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

### (b) Use of estimates and judgments

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

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

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

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

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

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

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

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

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

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

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

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

  Judgments are required in determining the existence of a legal or constructive obligation and in assessing the probability of an outflow of future economic benefits. In determining when to record a provision, management makes assumptions about the amount and likelihood of outflows and their timing. Factors affecting these assumptions include the nature of the provision, opinions and views of legal counsel and other advisors, experience in similar circumstances, and any decision of management as to how CATSA intends to handle the obligation. Changes to these assumptions would affect the recording of the provision and financial performance.

- note 3(m) – Revenue

  The measurement and recognition of revenue requires the use of estimates and judgment in identifying whether a contract exists, identifying performance obligations, the allocation of the transaction price and the method used to measure progress in satisfying the performance obligation and thus determining the timing of revenue recognition.

  In determining whether a contract with a customer exists for the purposes of recognizing revenue, CATSA determines whether certain criteria are met, including whether it is more likely than not that the consideration will be collected from the customer. In making this assessment at contract inception, CATSA considers a number of factors, including results from customer credit checks, the customer's credit history, and CATSA's ability to limit losses by ceasing to provide services in the case of non-payment.

The nature of CATSA's promise in its contracts with the airport authorities is to provide supplemental screening of passengers. This screening includes a number of different activities, none of which individually provide a benefit to the airport authority. All activities are inputs into the combined output of the supplemental screening service. Consequently, CATSA has determined that the promise in the contract, which is the provision of supplemental screening services for the contract period, constitutes one performance obligation.

The consideration for screening services is variable in nature and requires two key judgments to determine when to recognize revenue:

(i) the method used to measure progress in satisfying the single performance obligation, and

(ii) the measurement and allocation of any variable consideration.

Given that the services are provided on an ongoing basis and are substantially the same, CATSA has determined a time-based measure of progress best depicts the transfer of services to the customer. Further, since the variable consideration is compensating CATSA for its efforts in providing the services, the variable consideration is allocated to increments of time and recognized as the service is delivered to the customers over time.

## (c) Adoption of new International Financial Reporting Standards

(i) IFRS 9 *Financial Instruments*

Effective April 1, 2018, CATSA adopted IFRS 9 *Financial Instruments*. IFRS 9 was issued to replace earlier versions of IFRS 9, and completes the project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard establishes a logical model for classification and measurement of financial assets and financial liabilities, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 *Financial Instruments: Disclosures*.

CATSA applied IFRS 9 retrospectively. There was no impact to financial performance, total comprehensive income (loss), or accumulated deficit upon adoption of IFRS 9.

The table below illustrates the classification of CATSA's financial assets and financial liabilities following the adoption of IFRS 9:

| Financial Instruments | Classification under IAS 39 | Classification under IFRS 9 |
|---|---|---|
| Cash | Loans and receivables | Amortized cost |
| Receivable related to supplemental screening services | Loans and receivables | Amortized cost |
| Derivative financial assets | Fair value through profit and loss | Fair value through profit and loss |
| Trade and other payables | Other financial liabilities | Amortized cost |
| Holdbacks | Other financial liabilities | Amortized cost |
| Derivative financial liabilities | Fair value through profit and loss | Fair value through profit and loss |

(ii) IFRS 15 *Revenue from Contracts with Customers*

Effective April 1, 2018, CATSA adopted IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 was issued to replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of other revenue-related interpretations. The standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

CATSA applied IFRS 15 retrospectively. There was no impact to financial performance, total comprehensive income (loss), or accumulated deficit upon adoption of IFRS 15. Expanded note disclosures relating specifically to the use of estimates and judgments have been included in note 3(b).

## (d) Inventories

Inventories consist of spare parts acquired for equipment maintenance, screening officer uniforms and RAIC. 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.

## (e) Property and equipment

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

(i) Recognition and measurement

Property and equipment are recorded at cost less accumulated depreciation, except for work-in-progress, which is recorded at cost but not depreciated until the asset is available for use. Cost includes expenditures that are directly attributable to the acquisition and installation of the assets, including integration costs related to the installation of the assets at the airports to ensure they are in a condition necessary for their intended use. These costs include conveyor systems, platforms and other structures required to connect screening equipment to existing airport infrastructures.

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

Depreciation methods, estimated useful lives and residual values are reviewed at least annually.

## (f) Assets held for sale

CATSA classifies property and equipment as held for sale if its carrying amount will be recovered principally through a sale rather than through continuing use. This condition is only met when the asset is available for immediate sale in its present condition and the sale is highly probable. An asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Depreciation is not recorded while an asset is classified as held for sale.

## (g) 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 five to 10 years.

## (h) 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 considered to be impaired if they are no longer able to contribute to CATSA's mandate. When the assets continue to contribute to the fulfillment of CATSA's mandate, the estimated useful lives of that property and equipment and intangible assets are reviewed and adjustments to amortization/depreciation are recorded on a prospective basis, if necessary.

## (i) 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.

## (j) Financial instruments

(i) Non-derivative financial instruments

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

CATSA classifies non-derivative financial assets into the category of financial assets measured at amortized cost. 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. Measurement is based on CATSA's business model for managing financial assets and the contractual terms of the cash flows (financial assets are held with the intent of collecting contractual cash flows and the contractual cash flows of the financial asset represent solely payments of principal and interest). If CATSA's business model were to change, its classification would be reassessed.

At each reporting date, CATSA assesses, on a forward-looking basis, the expected credit losses on any financial assets measured at amortized cost. For trade receivables, CATSA applies the simplified approach required by IFRS 9, which requires lifetime expected losses to be recognized from the initial recognition of the receivables. CATSA has not recorded a credit loss provision on cash because of the high credit quality of the financial institutions in which CATSA holds such instruments.

CATSA derecognizes a non-derivative financial asset when the contractual rights to the cash flows from the asset are either collected, expire or are transferred to another party.

Non-derivative financial liabilities include trade and other payables and holdbacks.

CATSA classifies non-derivative financial liabilities into the category of financial liabilities measured at amortized cost. Non-derivative financial liabilities are recognized on the trade date at which CATSA becomes a party to the contractual provisions of the instrument. 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.

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

(ii) Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts entered into by CATSA for the purpose of managing its exposure to foreign currency risk. CATSA does not apply hedge accounting to its derivative financial instruments.

Derivative financial instruments are classified at fair value through profit and loss. These derivative financial instruments are initially recognized at fair value at the date at which CATSA enters into the derivative contracts. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The resulting change in fair value is recognized in financial performance on the Statement of Comprehensive Income (Loss). CATSA derecognizes a derivative financial instrument upon settlement of the instrument.

The fair values of derivative financial instruments are presented in the Statement of Financial Position; the positive fair values are reported as derivative financial assets and the negative fair values are reported as derivative financial liabilities. If a derivative financial asset or a derivative financial liability has a maturity date of more than 12 months after the reporting period, they are classified as non-current.

## (k) Employee benefits

(i) Post-employment benefit plans – defined benefit

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

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 and provincial bonds that:

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

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

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

Remeasurement of defined benefit plans consists of actuarial gains and losses, the return on plan assets (excluding interest) and the effect of changes in the asset ceiling (if applicable). When a funded plan gives rise to a net pension benefit asset, a remeasurement for the effect of the asset ceiling may occur if it is established that the surplus will not provide future economic benefits with respect to future service costs. Those future economic benefits are available under the terms of CATSA's defined benefit pension plans, which allow CATSA to take contribution holidays when certain funding thresholds are met.

Remeasurement of defined benefit plans is recognized in other comprehensive income or loss and is included immediately in accumulated deficit without reclassification to financial performance in a subsequent period.

(ii) Post-employment benefit plan – defined contribution

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

(iii) Termination benefits

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

(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.

## (l) Provisions and contingencies

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

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

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

(i) Disputed claims

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

(ii) Decommissioning costs

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

## (m) Revenue

(i) Supplemental screening services

CATSA's revenue from contracts with customers is for supplemental screening services at airports on a cost recovery basis. A contract for supplemental screening services exists when collection of consideration is probable, the contract has commercial substance, the rights to supplemental screening services and payment terms are identifiable, and the contract is approved and all parties are committed to their obligations. The contracts may have varying stated terms, but are cancellable at any time by either party, subject to a notice period. Payments for services are due within 30 days of invoicing.

Revenue from supplemental screening services is recognized in financial performance as the customer obtains control of the service, which occurs over time as the screening services are provided. A time-based measure is used to measure the progress of transferring services to the customer.

Revenue is measured at the transaction price, which is the amount that CATSA expects to be entitled to in exchange for the supplemental screening services. The transaction price is based on screening services provided by CATSA and rates specified in the contract and excludes taxes collected on behalf of third parties. Since the supplemental screening service is a single performance obligation, no other allocation is required.

(ii) Finance income

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

(iii) Rental income

Rental income relates to the sub-leasing of office space at headquarters and is recognized on a straight-line basis over the term of the sub-lease.

## (n) Government funding

CATSA's primary source of funding is parliamentary appropriations received from the Government of Canada. Parliamentary appropriations are accounted for as Government of Canada grants and are recognized in financial performance on a systematic basis over the periods in which CATSA recognizes as expenses the related costs for which the grants are intended to compensate.

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

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

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

## (o) Deferred lease incentives

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

## (p) Finance cost

Finance cost is comprised primarily of interest expense and is recognized in financial performance in the year it is incurred.

## (q) Foreign currency translation

Transactions in foreign currency 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 of monetary assets and liabilities denominated in foreign currencies, using the exchange rates at the end of the reporting period, 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.

## (r) Future accounting changes

As at March 31, 2019, the following applicable new accounting standard has been issued by the IASB, but is not yet effective for CATSA.

(i) IFRS 16 *Leases*

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

CATSA has elected to apply the modified retrospective approach in transitioning to IFRS 16; therefore prior year figures will not be restated. In addition, CATSA has elected to record its right-of-use assets based on the corresponding lease liabilities. The impact on the Statement of Financial Position will be significant, with the addition of right-of-use assets and corresponding lease liabilities of approximately $25,960, based on CATSA's incremental borrowing rates on the date of initial application. Expanded note disclosure is also required under the new standard.

IFRS 16 offers a number of policy choices commonly known as practical expedients. CATSA has elected to apply the following practical expedients:

- CATSA will not apply IFRS 16 to leases for which the lease term is 12 months or less or the underlying asset is of low value; and
- CATSA will not separate non-lease components from lease components for its office space asset class and instead account for each lease component and any associated non-lease components as a single component. CATSA will separate non-lease components from lease components for its data centre asset class, and therefore account for them separately.

CATSA has elected to apply the following practical expedients upon transition:

- CATSA will not apply IFRS 16 at transition to certain leases for which the lease term ends within 12 months of the date of initial application. CATSA will account for these leases in the same manner as short-term leases; and
- CATSA will not reassess on the date of initial application whether a contract is, or contains, a lease, as previously assessed under IAS 17 and IFRIC 4 *Determining whether an arrangement contains a lease*.

## (s) Reclassification of comparative information

Beginning April 1, 2018, CATSA changed the presentation of the current portion of holdbacks in the Statement of Financial Position to reflect their significance. Previously, current holdbacks were included in trade and other payables. As a result of this change, $9,349 has been reclassified from trade and other payables as at March 31, 2018, to current holdbacks on the Statement of Financial Position and in notes 13(b) and 17.

(In thousands of Canadian dollars)

## 4. Trade and other receivables

Trade and other receivables are comprised of:

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Parliamentary appropriations | $ 131,926 | $ 121,399 |
| GST and HST recoverable | 9,142 | 10,435 |
| PST recoverable | 2,447 | 2,306 |
| Supplemental screening services | 1,975 | 2,267 |
| Other | – | 99 |
| | $ 145,490 | $ 136,506 |

Credit terms on trade receivables are 30 days. As at March 31, 2019, and March 31, 2018, there were no amounts included in trade and other receivables that were past due. CATSA has historically collected all of its trade receivables in full. For more information on CATSA's credit risk, refer to note 13 (c)(i).

## 5. Inventories

Inventories are comprised of:

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Spare parts | $ 13,843 | $ 13,879 |
| Uniforms | 1,149 | 1,779 |
| RAIC | 313 | 743 |
| | $ 15,305 | $ 16,401 |

During the year, inventories totalling $6,407 (2018 – $5,241) were charged to expenses. This includes an amount of $105 (2018 – $346) resulting from a write-down of inventories. It also includes an amount of $13 (2018 – $70) resulting from the reversal of previous write-downs.

(In thousands of Canadian dollars)

## 6. Property and equipment

A reconciliation of property and equipment is as follows:

| | PBS equipment | HBS equipment | NPS equipment | RAIC equipment | Computers, integrated software and electronic equipment | Office furniture and equipment | Leasehold improve-ments | Work-in-progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balance, March 31, 2017 | $ 125,283 | $ 747,167 | $ 20,345 | $ 5,329 | $ 27,203 | $ 30 | $ 9,929 | $ 69,472 | $1,004,758 |
| Additions | 15,810 | 19,055 | 1,196 | 59 | 680 | – | 87 | 38,177 | 75,064 |
| Disposals | (1,133) | (95,365) | (974) | – | (441) | – | – | – | (97,913) |
| Write-offs | (524) | (981) | (1,240) | (1,403) | (2,609) | – | (25) | (123) | (6,905) |
| Reclassifications | 5,434 | 19,927 | 527 | 454 | 2,081 | – | 11 | (28,434) | – |
| Balance, March 31, 2018 | $ 144,870 | $ 689,803 | $ 19,854 | $ 4,439 | $ 26,914 | $ 30 | $ 10,002 | $ 79,092 | $ 975,004 |
| Balance, March 31, 2018 | $ 144,870 | $ 689,803 | $ 19,854 | $ 4,439 | $ 26,914 | $ 30 | $ 10,002 | $ 79,092 | $ 975,004 |
| Additions | 13,261 | 8,515 | (16) | 88 | 673 | 118 | 639 | 79,531 | 102,809 |
| Disposals | (3,216) | (32,871) | (1,744) | – | (392) | – | (19) | – | (38,242) |
| Write-offs | (963) | (1,192) | – | (88) | (446) | (19) | (66) | (95) | (2,869) |
| Reclassifications | 5,424 | 55,250 | 297 | 36 | 1,485 | – | 57 | (62,572) | (23) |
| Balance, March 31, 2019 | $ 159,376 | $ 719,505 | $ 18,391 | $ 4,475 | $ 28,234 | $ 129 | $ 10,613 | $ 95,956 | $1,036,679 |
| **Accumulated depreciation** | | | | | | | | | |
| Balance, March 31, 2017 | $ 77,884 | $ 484,912 | $ 10,825 | $ 3,724 | $ 17,873 | $ 30 | $ 8,602 | $ – | $ 603,850 |
| Depreciation | 11,370 | 40,492 | 1,649 | 637 | 3,285 | – | 370 | – | 57,803 |
| Disposals | (1,130) | (94,791) | (974) | – | (441) | – | – | – | (97,336) |
| Write-offs | (360) | (871) | (484) | (1,402) | (2,609) | – | (25) | – | (5,751) |
| Balance, March 31, 2018 | $ 87,764 | $ 429,742 | $ 11,016 | $ 2,959 | $ 18,108 | $ 30 | $ 8,947 | $ – | $ 558,566 |
| Balance, March 31, 2018 | $ 87,764 | $ 429,742 | $ 11,016 | $ 2,959 | $ 18,108 | $ 30 | $ 8,947 | $ – | $ 558,566 |
| Depreciation | 13,398 | 43,663 | 1,572 | 536 | 2,663 | 13 | 526 | – | 62,371 |
| Disposals | (3,211) | (32,092) | (1,745) | – | (392) | – | (19) | – | (37,459) |
| Write-offs | (594) | (1,177) | 55 | (88) | (434) | (19) | (66) | – | (2,323) |
| Balance, March 31, 2019 | $ 97,357 | $ 440,136 | $ 10,898 | $ 3,407 | $ 19,945 | $ 24 | $ 9,388 | $ – | $ 581,155 |
| **Carrying amounts** | | | | | | | | | |
| As at March 31, 2018 | $ 57,106 | $ 260,061 | $ 8,838 | $ 1,480 | $ 8,806 | $ – | $ 1,055 | $ 79,092 | $ 416,438 |
| As at March 31, 2019 | $ 62,019 | $ 279,369 | $ 7,493 | $ 1,068 | $ 8,289 | $ 105 | $ 1,225 | $ 95,956 | $ 455,524 |

In 2011/12, CATSA began a ten year Recapitalization Program related to the conversion of its HBS systems at select 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 HBS equipment related to the Recapitalization Program and certain PBS equipment were adjusted to reflect their expected decommissioning dates. The change in accounting estimate increased the current year depreciation expense by a total of $1,370. The increase in depreciation expense was offset by a decrease in the amortization of deferred government funding related to capital expenditures.

There were no amounts recorded relating to impairment losses or the reversal of impairment losses for the years ended March 31, 2019, or March 31, 2018.

(In thousands of Canadian dollars)

## 7. Intangible assets

A reconciliation of intangible assets is as follows:

| | Externally acquired software | Internally developed software | Under development | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, March 31, 2017 | $ 4,111 | $ 19,655 | $ 2,333 | $ 26,099 |
| Additions | 451 | – | 908 | 1,359 |
| Write-offs | (68) | – | – | (68) |
| Balance, March 31, 2018 | $ 4,494 | $ 19,655 | $ 3,241 | $ 27,390 |
| Balance, March 31, 2018 | $ 4,494 | $ 19,655 | $ 3,241 | $ 27,390 |
| Additions | 4,633 | 288 | 3,886 | 8,807 |
| Write-offs | (30) | (2,285) | – | (2,315) |
| Reclassifications | 23 | 2,550 | (2,550) | 23 |
| Balance, March 31, 2019 | $ 9,120 | $ 20,208 | $ 4,577 | $ 33,905 |
| **Accumulated amortization** | | | | |
| Balance, March 31, 2017 | $ 3,119 | $ 14,529 | $ – | $ 17,648 |
| Amortization | 287 | 858 | – | 1,145 |
| Write-offs | (68) | – | – | (68) |
| Balance, March 31, 2018 | $ 3,338 | $ 15,387 | $ – | $ 18,725 |
| Balance, March 31, 2018 | $ 3,338 | $ 15,387 | $ – | $ 18,725 |
| Amortization | 697 | 1,083 | – | 1,780 |
| Write-offs | (30) | (2,285) | – | (2,315) |
| Balance, March 31, 2019 | $ 4,005 | $ 14,185 | $ – | $ 18,190 |
| **Carrying amounts** | | | | |
| As at March 31, 2018 | $ 1,156 | $ 4,268 | $ 3,241 | $ 8,665 |
| As at March 31, 2019 | $ 5,115 | $ 6,023 | $ 4,577 | $ 15,715 |

There were no amounts expensed relating to the write-off of intangible assets for the years ended March 31, 2019, or March 31, 2018.

There were no research and development costs expensed for the years ended March 31, 2019, or March 31, 2018.

## 8. Provisions and contingencies

### (a) Provisions

Several claims, audits and legal proceedings have been asserted or instituted against CATSA. By nature, these amounts are subject to many uncertainties and the outcome of individual matters is not always predictable. Provisions are determined by taking into account internal analysis, consultations with external subject matter experts, and all available information at the time of financial statement preparation.

There were no provisions recorded as at March 31, 2019, or March 31, 2018.

### (b) Contingencies

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

(i) Claims and legal proceedings

During the prior year, CATSA received notification from an airport authority that it had been assessed by the Canada Revenue Agency for failing to charge HST to CATSA on funding agreements related to integration projects and maintenance agreements. With the cooperation of the airport authority, CATSA filed a notice of objection and is of the view that it is more likely than not that the notice of objection will be successful. Should the objection prove to be successful, CATSA will be able to recover all amounts remitted related to this assessment.

CATSA has similar funding agreements with other airport authorities that could result in an assessment by tax authorities. While CATSA judges that the likelihood of economic outflow related to these other funding agreements to be not probable, there is a risk that CATSA could be required to pay other assessments in the event that these other airport authorities are audited and the Canada Revenue Agency upholds its position. The maximum undiscounted cash flow that could be required to settle this contingent liability is estimated to be $20,950 (March 31, 2018 – $17,140), offset by estimated recoverable taxes of $9,980 (March 31, 2018 – $8,580) for a net amount of $10,970 (March 31, 2018 – $8,560). These amounts have not been recorded in the financial statements.

(ii) Decommissioning costs

CATSA has identified contingent liabilities associated with the removal of EDS equipment from airports across Canada, some of which contain hazardous materials, as well as the restoration of facilities contractually required under lease agreements. Since it is not probable that an outflow of economic resources will be required to settle these legal obligations, no provision has been recorded in the financial statements. Should the probabilities change in the future, the maximum undiscounted cash flow required to settle these liabilities between 2019/20 and 2028/29 (2018 – 2018/19 and 2028/29) is estimated to be $3,760 (2018 – $3,695).

(In thousands of Canadian dollars)

## 9. Deferred government funding

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

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| **Deferred government funding related to operating expenses** | | |
| Balance, beginning of year | $ 19,534 | $ 18,725 |
| Operating expenses funded through parliamentary appropriations | 703,073 | 646,307 |
| Parliamentary appropriations recognized as government funding for operating expenses | (704,049) | (645,498) |
| Balance, end of year | $ 18,558 | $ 19,534 |
| **Deferred government funding related to capital expenditures** | | |
| Balance, beginning of year | $ 424,026 | $ 408,959 |
| Capital expenditures funded through parliamentary appropriations | 110,853 | 75,592 |
| Amortization of deferred government funding related to capital expenditures | (65,147) | (60,525) |
| Balance, end of year | $ 469,732 | $ 424,026 |
| Total deferred government funding, end of year | $ 488,290 | $ 443,560 |

For additional information on government funding, see note 12.

## 10. Employee benefits

### (a) Post-employment benefit plans overview

CATSA maintains three post-employment benefit plans:

- A registered pension plan (RPP), which is registered with the Office of the Superintendent of Financial Institutions 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* (Canada) 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 full-time and part-time indeterminate employees are eligible for the ODBP.

The defined benefit pension plans' funds are held in external trusts that are legally separate from CATSA. Benefits are paid directly from the trusts. Both employer and employee contributions to the defined benefit pension plans are made in accordance with the provisions of the plans. In addition, contributions are determined by actuarial valuations in accordance with applicable legislation. Effective July 1, 2013, the defined benefit pension plans are closed to new employees.

CATSA maintains a defined contribution pension plan for employees hired after June 30, 2013. Enrollment in this plan is mandatory for full-time indeterminate employees, as well as part-time indeterminate employees working 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 committee of the Board, assists the Board in discharging its responsibilities. This Committee is responsible for overseeing the management and administration of the plans.

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

The defined benefit plans expose CATSA to actuarial risks such as inflation risk, interest rate risk, investment risk, longevity risk, medical claim rates risk and salary risk. In addition, the closed nature of the defined benefit pension plans will create a rise in future service costs as the plan members age. Current cost sharing provisions also increased employee contributions to a level beyond what is permitted by the *Income Tax Regulations*. CATSA obtained a waiver to exceed permitted limits from the Canada Revenue Agency up to December 31, 2020. In order to extend this approval period, CATSA must submit a new waiver request.

(In thousands of Canadian dollars)

## (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:

| | RPP | | SRP | | ODBP | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Fair value of plan assets** | | | | | | |
| Balance, beginning of year | $ 195,976 | $ 183,250 | $ 6,639 | $ 6,420 | $ – | $ – |
| *Included in financial performance* | | | | | | |
| Interest income | 6,913 | 6,906 | 232 | 241 | – | – |
| Administration costs | (250) | (250) | (15) | (15) | – | – |
| *Included in other comprehensive income (loss)* | | | | | | |
| Remeasurement gain | | | | | | |
| Return on assets excluding interest income | 3,604 | 2,694 | 20 | 31 | – | – |
| *Other* | | | | | | |
| CATSA contributions | 3,928 | 4,010 | 34 | 26 | 216 | 205 |
| Plan participant contributions | 3,378 | 3,368 | 34 | 26 | – | – |
| Benefit payments and transfers | (6,295) | (4,002) | (102) | (90) | (216) | (205) |
| Balance, end of year | $ 207,254 | $ 195,976 | $ 6,842 | $ 6,639 | $ – | $ – |
| **Present value of defined benefit liabilities** | | | | | | |
| Balance, beginning of year | $ 192,630 | $ 166,630 | $ 4,955 | $ 3,998 | $ 28,402 | $ 24,292 |
| *Included in financial performance* | | | | | | |
| Current service cost | 8,974 | 8,197 | 70 | 69 | 1,849 | 1,646 |
| Interest expense | 7,101 | 6,579 | 176 | 152 | 1,055 | 969 |
| *Included in other comprehensive income (loss)* | | | | | | |
| Remeasurement (gains) losses | | | | | | |
| Actuarial gains arising from changes in demographic assumptions | (835) | (192) | (16) | – | (583) | – |
| Actuarial losses arising from changes in financial assumptions | – | 13,666 | – | 622 | – | 1,700 |
| Actuarial (gains) losses arising from experience adjustments | (1,630) | (1,616) | (72) | 178 | – | – |
| *Other* | | | | | | |
| Plan participant contributions | 3,378 | 3,368 | 34 | 26 | – | – |
| Benefit payments and transfers | (6,295) | (4,002) | (102) | (90) | (216) | (205) |
| Balance, end of year | $ 203,323 | $ 192,630 | $ 5,045 | $ 4,955 | $ 30,507 | $ 28,402 |
| Net employee benefits asset (liability) | $ 3,931 | $ 3,346 | $ 1,797 | $ 1,684 | $ (30,507) | $ (28,402) |

(In thousands of Canadian dollars)
Year ended March 31, 2019

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Employee benefits asset, end of year | | |
| RPP | $ 3,931 | $ 3,346 |
| SRP | 1,797 | 1,684 |
| | 5,728 | 5,030 |
| Employee benefits liability, end of year | | |
| ODBP | (30,507) | (28,402) |
| | (30,507) | (28,402) |
| Employee benefits – net liability, end of year | $ (24,779) | $ (23,372) |

## (d) Employee benefits costs

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

| | RPP | | SRP | | ODBP | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Defined benefit cost (income) recognized in financial performance** | | | | | | | | |
| Current service cost | $ 8,974 | $ 8,197 | $ 70 | $ 69 | $ 1,849 | $ 1,646 | $ 10,893 | $ 9,912 |
| Administration costs | 250 | 250 | 15 | 15 | – | – | 265 | 265 |
| Interest cost on defined benefit obligation | 7,101 | 6,579 | 176 | 152 | 1,055 | 969 | 8,332 | 7,700 |
| Interest income on plan assets | (6,913) | (6,906) | (232) | (241) | – | – | (7,145) | (7,147) |
| Defined benefit cost (income) | $ 9,412 | $ 8,120 | $ 29 | $ (5) | $ 2,904 | $ 2,615 | $ 12,345 | $ 10,730 |
| **Remeasurement of defined benefit plans recognized in other comprehensive income (loss)** | | | | | | | | |
| Return on plan assets excluding interest income | $ 3,604 | $ 2,694 | $ 20 | $ 31 | $ – | $ – | $ 3,624 | $ 2,725 |
| Actuarial gains (losses) | 2,465 | (11,858) | 88 | (800) | 583 | (1,700) | 3,136 | (14,358) |
| Remeasurement of defined benefit plans | $ 6,069 | $ (9,164) | $ 108 | $ (769) | $ 583 | $ (1,700) | $ 6,760 | $ (11,633) |

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

(In thousands of Canadian dollars)

## (e) Composition of plan assets

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

| | RPP | | SRP | | Total | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| *Investment funds* | | | | | | |
| Equity securities | | | | | | |
| Canadian equity funds | $ 31,155 | $ 28,748 | $ 1,149 | $ 1,072 | $ 32,304 | $ 29,820 |
| U.S. equity fund | – | – | 1,399 | 1,353 | 1,399 | 1,353 |
| International equity funds | 83,390 | 78,922 | 1,258 | 1,273 | 84,648 | 80,195 |
| Debt securities | | | | | | |
| Canadian bond fund | 72,268 | 68,623 | – | – | 72,268 | 68,623 |
| Real estate | 20,182 | 9,993 | – | – | 20,182 | 9,993 |
| Other | – | 9,690 | – | – | – | 9,690 |
| *Canada Revenue Agency refundable tax account* | – | – | 3,036 | 2,941 | 3,036 | 2,941 |
| *Cash and cash equivalents* | 259 | – | – | – | 259 | – |
| Total plan assets, end of year | $ 207,254 | $ 195,976 | $ 6,842 | $ 6,639 | $ 214,096 | $ 202,615 |

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

On a regular basis, an asset-liability modelling study is performed, which analyzes the timing and magnitude of future cash outflows of the defined benefit component 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 defined benefit component 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.

(In thousands of Canadian dollars)

## (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 | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| *Present value of defined benefit liability* | | | | | | |
| Discount rate | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| Long-term rate of compensation increase | | | | | | |
| Following year | 3.75% | 5.50% | 3.75% | 5.50% | 3.75% | 5.50% |
| Thereafter | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% |
| Inflation | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Mortality table[1] | CPM-B | CPM-B | CPM-B | CPM-B | CPM-B | CPM-B |
| *Benefit costs* | | | | | | |
| Discount rate | 3.50% | 3.75% | 3.50% | 3.75% | 3.50% | 3.75% |
| Inflation | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| *Assumed medical cost trend rates* | | | | | | |
| Initial medical cost trend rate | | | | | 6.00% | 6.25% |
| Ultimate medical cost trend rate | | | | | 4.50% | 4.50% |
| Year ultimate reached | | | | | 2025 | 2025 |

[1] Canadian Pensioners' Mortality Improvement Scale B

The sensitivity analysis below was determined based on changes to the respective assumptions occurring at March 31, 2019, while holding all other assumptions constant:

| | Change | Impact on defined benefit liabilities |
|---|---|---|
| Increase in discount rate | 1% | $ (47,103) |
| Decrease in discount rate | 1% | 64,184 |
| Increase in long-term rate of compensation increase | 1% | 13,675 |
| Decrease in long-term rate of compensation increase | 1% | (12,055) |
| Increase in inflation | 1% | 38,074 |
| Decrease in inflation | 1% | (30,303) |
| Increase in life expectancy | 1 year | 6,558 |
| Decrease in life expectancy | 1 year | (6,623) |
| Increase in assumed medical cost trend rate | 1% | 8,618 |
| Decrease in assumed medical cost trend rate | 1% | (6,310) |

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.

(In thousands of Canadian dollars)

## (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 expects that a funding valuation for the SRP will be performed whenever CATSA performs a funding valuation for the RPP.

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, 2017 | December 31, 2018 |
| SRP | December 31, 2017 | December 31, 2018 |
| 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, 2020, will total $7,036, and consist of CATSA contributions of $3,785 and plan participant contributions of $3,251.

Cash payments to be made to the unfunded ODBP for the year ended March 31, 2020, 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, 2020, will total $228.

As at March 31, 2019, the weighted average duration of the defined benefit obligation for the RPP, the SRP and the ODBP was 22.8 years (2018 – 23.3 years), 19.0 years (2018 – 19.0 years) and 24.3 years (2018 – 24.3 years), respectively.

## (h) Employee costs

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

| | 2019 | 2018 |
|---|---|---|
| Employee costs (excluding post-employment and termination benefits) | $ 49,859 | $ 49,211 |
| Post-employment benefits | | |
| Defined benefit pension plans and other defined benefits plan | 12,345 | 10,730 |
| Defined contribution pension plan | 540 | 478 |
| Termination benefits | 273 | 343 |
| Total employee costs (note 11) | $ 63,017 | $ 60,762 |

(In thousands of Canadian dollars)

## 11. Expenses

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

| | 2019 | 2018 |
|---|---|---|
| Screening services and other related costs | | |
| Payments to screening contractors | $ 585,665 | $ 534,553 |
| Uniforms and other screening costs | 5,602 | 5,768 |
| Trace and consumables | 3,026 | 2,341 |
| | 594,293 | 542,662 |
| Equipment operating and maintenance | | |
| Equipment maintenance and spare parts | 39,831 | 37,629 |
| Training and certification | 1,567 | 412 |
| RAIC | 860 | 954 |
| | 42,258 | 38,995 |
| Program support and corporate services | | |
| Employee costs | 63,017 | 60,762 |
| Office and computer expenses | 7,666 | 4,808 |
| Professional services and other business related costs | 6,371 | 6,597 |
| Operating leases | 5,991 | 6,407 |
| Other administrative costs | 4,576 | 4,463 |
| Communications and public awareness | 1,143 | 1,386 |
| | 88,764 | 84,423 |
| Depreciation and amortization | | |
| Depreciation of property and equipment | 62,371 | 57,803 |
| Amortization of intangible assets | 1,780 | 1,145 |
| | 64,151 | 58,948 |
| | $ 789,466 | $ 725,028 |

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.

(In thousands of Canadian dollars)

## 12. Government funding

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

| | 2019 | 2018 |
|---|---|---|
| Main estimates | $ 586,158 | $ 584,584 |
| Supplementary estimates | 276,650 | 176,100 |
| Capital reprofile – approved | (16,772) | (1,217) |
| Total voted parliamentary appropriations | 846,036 | 759,467 |
| Capital reprofile to future year – in progress[1] | (26,118) | (36,038) |
| Unused portion of parliamentary appropriations | (5,992) | (1,530) |
| Total parliamentary appropriations used | $ 813,926 | $ 721,899 |

[1] The capital reprofile in progress as at March 31, 2018, was approved during the year ended March 31, 2019.

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

| | 2019 | 2018 |
|---|---|---|
| Parliamentary appropriations used to fund operating expenses (note 9) | $ 703,073 | $ 646,307 |
| Parliamentary appropriations used to fund capital expenditures (note 9) | 110,853 | 75,592 |
| Total parliamentary appropriations used | $ 813,926 | $ 721,899 |

## 13. Fair values and risks arising from financial instruments

### Fair values of financial instruments and fair value hierarchy

Derivative financial instruments are recorded at fair value on the Statement of Financial Position. The fair values of cash, receivables related to supplemental screening services, trade and other payables, and current holdbacks approximate their carrying amount due to the current nature of these instruments.

Financial instruments recorded at fair value on the Statement of Financial Position use a hierarchy to categorize the inputs to valuation techniques used to measure them. The fair value hierarchy gives the highest priority to quoted prices and the lowest priority to unobservable inputs as follows:

**Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

**Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3:** unobservable inputs for the asset or liability.

(In thousands of Canadian dollars)

The carrying amounts and corresponding fair values using the fair value hierarchy of CATSA's remaining financial assets and liabilities as at March 31 are as follows:

| | March 31, 2019 | | March 31, 2018 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value (Level 2) | Carrying Amount | Fair Value (Level 2) |
| Financial instruments measured at fair value | | | | |
| Derivative financial assets[1] | $ 537 | $ 537 | $ 384 | $ 384 |
| Financial instruments measured at amortized cost | | | | |
| Non-current holdbacks[2] | $ 7,767 | $ 7,767 | $ 4,338 | $ 4,338 |

[1] The fair value is based on a discounted cash flow model based on observable inputs.

[2] The fair value is determined using expected future cash flows, discounted using published Government of Canada bond rates with similar terms and characteristics.

There were no transfers between levels during the years ended March 31, 2019, or March 31, 2018.

## Financial risk factors

CATSA is exposed to a variety of financial risks: market risk, liquidity risk and credit risk.

### (a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. CATSA's key market risk relates to currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. CATSA is exposed to currency risk on its trade and other payables denominated in a currency other than the Canadian dollar (CAD), which is the functional currency of CATSA. The risk arises mainly from transactions denominated in United States dollars (USD). CATSA's policy on currency risk requires that CATSA minimize currency risk to protect the value of foreign cash flows, both committed and anticipated, from the impact of exchange rate fluctuations. To that end, CATSA has implemented a strategy to help mitigate this risk by entering into foreign exchange forward contracts.

The following table provides the total foreign currency exposure related to amounts recorded in trade and other payables denominated in the USD and their CAD equivalent:

| | USD | CAD |
|---|---|---|
| March 31, 2019 | $ 5,310 | $ 7,088 |
| March 31, 2018 | 5,193 | 6,699 |

Assuming all other variables remain constant, a 5% depreciation or appreciation of the USD against the CAD would result in an increase or decrease in financial performance of $354 (2018 – $335).

(In thousands of Canadian dollars)

## (b) Liquidity risk

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

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

| | Less than 3 months | 3 months to 1 year | Greater than 1 year | Total at March 31, 2019 |
|---|---|---|---|---|
| Trade and other payables | $ 113,668 | $ 16,051 | $ – | $ 129,719 |
| Holdbacks | 11,584 | 849 | 7,767 | 20,200 |
| | **Less than 3 months** | **3 months to 1 year** | **Greater than 1 year** | **Total at March 31, 2018** |
| Trade and other payables | $ 106,468 | $ 26,400 | $ – | $ 132,868 |
| Holdbacks | 9,349 | – | 4,338 | 13,687 |

CATSA's strategy for managing liquidity risk remains unchanged from March 31, 2018.

## (c) Credit risk

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

CATSA is exposed to credit risk through its cash, supplemental screening services receivables and foreign exchange forward contracts. The maximum exposure to credit risk of CATSA at March 31, 2019, and March 31, 2018, was the carrying value of these assets.

(In thousands of Canadian dollars)

(i) Supplemental screening services

Prior to extending credit to a new customer, CATSA performs a formal credit review to determine a customer's credit-worthiness and the appropriate terms. An external credit-scoring agency is used to perform this assessment. In addition, CATSA performs credit reviews at regular intervals or if triggered by information that a customer's financial or corporate circumstances have changed.

As at March 31, 2019, CATSA's trade receivables are with one customer, GTAA, for supplemental screening services. GTAA has not been deemed to have a high risk of default. CATSA does not anticipate that any adverse changes in economic or business conditions will reduce this customers' ability to fulfill their obligations. CATSA also has the ability to cease providing services within 30 days should the financial or corporate circumstances of this customer change.

The probability of CATSA not collecting its trade receivables in full is low. Based on past collection history and CATSA's ongoing credit monitoring practices, the lifetime expected loss on CATSA's trade receivables would not be significant. As a result, CATSA has not recorded a credit loss provision as at March 31, 2019, and March 31, 2018. CATSA will continue to monitor its trade receivables for changes to these circumstances.

(ii) Foreign exchange forward contracts

CATSA's policy on currency risk requires that all significant foreign exchange forward contracts used to economically hedge a foreign currency exposure are negotiated with counterparties holding credit ratings equivalent to or better than that of the major Canadian banks. To this end, the Corporation has two counterparties meeting this criterion with which it places all its currency hedging business.

| | March 31, 2019 | | March 31, 2018 | |
|---|---|---|---|---|
| | Notional | Fair Value | Notional | Fair Value |
| Foreign exchange forward contracts[1] | $ 28,206 | $ 28,743 | $ 42,018 | $ 42,402 |

[1] The foreign exchange forward contracts' rates are between 1.2674 and 1.3327 for foreign exchange forward contracts in USD and the maturity dates are between April 4, 2019 and May 7, 2020.

(In thousands of Canadian dollars)

## 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 related maintenance.

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

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Operating | $ 1,626,045 | $ 2,228,761 |
| Capital | 111,938 | 122,149 |
| Total | $ 1,737,983 | $ 2,350,910 |

### (b) Lease arrangements

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

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| No later than 1 year | $ 6,876 | $ 6,945 |
| Later than 1 year and no later than 5 years | 17,836 | 22,260 |
| Later than 5 years | 531 | – |
| Total | $ 25,243 | $ 29,205 |

CATSA's most significant non-cancellable operating lease is the lease for office space at headquarters. The current lease term expires on November 30, 2022. The terms of this lease include lease incentives and an option to extend the lease for an additional five years beyond November 30, 2022, based on the prevailing market rate at that time and subject to the same terms and conditions. There is no further right to extend beyond November 30, 2027.

(In thousands of Canadian dollars)

## 15. Related party transactions

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

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

CATSA is wholly owned by the Government of Canada, and is under common control with other Government of Canada departments, agencies and Crown corporations. CATSA enters into transactions with these entities in the normal course of operations. These related party transactions are based on normal trade terms applicable to all individuals and corporations.

The following table summarizes CATSA's transactions with related parties for the years ended March 31:

| | 2019 | 2018 |
|---|---|---|
| Operating | | |
| Income | $ 769,196 | $ 706,023 |
| Expenses | 18,862 | 15,864 |
| Capital | | |
| HBS equipment | 630 | – |

Income from related parties represents parliamentary appropriations for operating expenses and amortization of deferred government funding related to capital expenditures. Expenses presented above for the year ended March 31, 2019, include $17,919 (2018 – $14,867) in non-recoverable taxes paid to fiduciaries of the Canada Revenue Agency.

The following related party balances are included in trade and other receivables and trade and other payables, respectively, on the Statement of Financial Position:

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Receivable from related parties | $ 141,068 | $ 131,933 |
| Payable to related parties | (1,394) | (1,134) |
| Net receivable from related parties | $ 139,674 | $ 130,799 |

At year-end, amounts receivable from related parties consist primarily of $131,926 (2018 – $121,399) due from the Government of Canada for parliamentary appropriations used during the year and not received at year-end, and $9,142 (2018 – $10,435) due from the Canada Revenue Agency for recoverable taxes paid on expenses.

(In thousands of Canadian dollars)

### (b) Key management personnel

As at March 31, 2019, key management personnel of CATSA are composed of the 11 (2018 – 11) Board members and the five (2018 – five) 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:

| | 2019 | 2018 |
|---|---|---|
| Salaries, other short-term employee benefits and termination benefits | $ 1,526 | $ 1,806 |
| Post-employment benefits | 325 | 308 |
| | $ 1,851 | $ 2,114 |

Other than the above compensation, there were no other related party transactions involving key management personnel and their close family members for the years ended March 31, 2019, or March 31, 2018.

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

Transactions with the RPP, SRP and ODBP are conducted in the normal course of business. The transactions with CATSA's post-employment benefit plans consist of contributions as determined by actuarial valuations, as disclosed in note 10. There were no other transactions during the year.

## 16. Capital management

As a federal Crown corporation, CATSA is subject to the FAA 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 relevant TBS directives, in that appropriated funds are drawn from the Consolidated Revenue Fund for the purpose of meeting short-term funding requirements.

CATSA's capital is comprised of cash, trade and other receivables, trade and other payables, current holdbacks, and provisions.

CATSA's objectives, policies and processes for managing capital have not changed during the years ended March 31, 2019, or March 31, 2018.

CATSA is not subject to externally imposed capital requirements.

(In thousands of Canadian dollars)

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

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

| | 2019 | 2018 |
|---|---|---|
| Decrease (increase) in trade and other receivables | $ 14,577 | $ (41,584) |
| Decrease (increase) in inventories | 1,096 | (672) |
| Increase in prepaid expenses | (120) | (137) |
| Increase in trade and other payables | 15,993 | 21 |
| (Decrease) increase in deferred government funding related to operating expenses | (976) | 809 |
| | $ 30,570 | $ (41,563) |

The change in trade and other receivables excludes an amount of $23,561 (2018 – $1,817) 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 $19,142 (2018 – $9,884) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

## 18. Budget 2019 and the Security Screening Services Commercialization Act

As part of Budget 2019, the Government of Canada announced its intention to enable CATSA to transfer to an independent, not-for-profit entity. In April 2019, the *Security Screening Services Commercialization Act* (SSSCA), was tabled as part of Bill C-97. The SSSCA, if passed, will allow for the sale of CATSA's assets and liabilities and the transfer of screening operations to the new entity.

There is currently no fixed timeline for negotiations nor an eventual sale or transfer of operations.

These developments have not changed CATSA's mandate. CATSA will continue to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

# GLOSSARY

| | |
|---|---|
| **BPSS** | Boarding Pass Security System: A system that automates the boarding pass validation process by scanning, analyzing and validating the informational content of boarding pass bar codes. |
| **Canada's eight busiest airports** | In alphabetical order: Calgary International, Edmonton International, Halifax (Stanfield International), Montreal (Montreal-Trudeau International), Ottawa (Macdonald-Cartier International), Toronto (Toronto 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. |
| **Class I airports** | Refers to the airports listed under Schedule 1 of the *Canadian Aviation Security Regulations, 2012*. These airports have an annual passenger traffic in excess of 1 million people, or have a high threat/risk potential. |
| **Class II airports** | Refers to the airports listed under Schedule 2 of the *Canadian Aviation Security Regulations, 2012*. These airports have one or more of the following characteristics:<br>• annual passenger traffic in excess of 200,000 people;<br>• a medium threat/risk potential;<br>• primary airport of provincial/territorial capital; or<br>• a transit stop for international flights bound for Class I or II airports. |
| **Class III airports** | Refers to the airports listed under Schedule 3 of the *Canadian Aviation Security Regulations, 2012*. These airports have scheduled commercial operations, but with a lower traffic volume and lower level of risk than the other classes of airports. |
| **ETD** | Explosive Trace Detection. |
| **HHMD** | Hand Held Metal Detector. |
| **ICAO** | International Civil Aviation Organization: Canada is a member of this organization, which brings together states and key industry organizations to determine areas of strategic priority; develops policies and standards; coordinates global monitoring, analysis and reporting initiatives; and delivers targeted assistance and capacity building. |
| **IFRS** | International Financial Reporting Standards. |
| **SOPs** | Standard Operating Procedures: instructions to screening officers on how to perform screening in accordance with Transport Canada's Security Screening Measures. |
| **Trusted Travellers** | Trusted Travellers: go through background checks to ensure they are low-risk passengers. Nexus card holders already have the option to utilize Trusted Traveller lines, but the federal government and CATSA have expanded the definition of Trusted Travellers to include not only Nexus holders but also Global Entry members, uniformed air crews, travelling RAIC holders and members of the Canadian Armed Forces and U.S. Armed Forces. |
| **WTMD** | Walk Through Metal Detector. |