



Quarterly Financial Report

For the Three Months Ended
June 30, 2014



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**CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE MONTHS ENDED JUNE 30, 2014**

Management's Narrative Discussion outlines the significant activities and initiatives, risks and financial results of the Canadian Air Transport Security Authority (CATSA) for the three months ended June 30, 2014. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three months ended June 30, 2014, which have been prepared in accordance with the recognition and measurement standards applicable under International Financial Reporting Standards (IFRS). This Narrative Discussion should also be read in conjunction with CATSA's Management Discussion and Analysis and audited annual financial statements for the year ended March 31, 2014. The information in this report is expressed in thousands of Canadian dollars and is current to August 25, 2014, unless otherwise stated.

Forward-looking statements

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

Materiality

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

CORPORATE OVERVIEW

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

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

- Pre-Board Screening (PBS): the screening of passengers, their carry-on baggage and their personal belongings;
- Hold Baggage Screening (HBS): the screening of checked baggage;
- Non-Passenger Screening (NPS): the screening of non-passengers on a random basis; and
- Restricted Area Identity Card (RAIC) Program: the administration of access control to airport restricted areas through biometric identifiers.

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

OPERATING ENVIRONMENT

The following section provides information on significant changes in the operating environment that have occurred since March 31, 2014.

GOVERNANCE UPDATE

During the quarter, Mr. William Restall was appointed to CATSA's Board of Directors, replacing Mr. Michael D. Campbell. The appointment is for a three year term, effective September 29, 2014.

PASSENGER GROWTH AND SCREENING CONTRACTOR BILLING RATES

CATSA's operating funding profile does not fully address rising passenger volumes and increases in screening contractor billing rates.

Statistics from CATSA's Boarding Pass Security System for the three-month period ended June 30, 2014 indicate that screened traffic increased by 6.8% over the same period in 2013. In addition, CATSA's purchasing power for PBS screening hours has decreased to accommodate annual increases in contractual billing rates, resulting in fewer screening hours purchased.

As a consequence, CATSA has witnessed longer wait times for passengers. CATSA continues to work with Transport Canada to address the impact on its operations and the travelling public.

RISKS AND UNCERTAINTIES

There have been no significant changes to the corporate risk profile as previously disclosed in the *2014 Annual Report*.

QUARTERLY FINANCIAL INFORMATION

The following table provides key highlights of the Statement of Comprehensive Income for the three months ended June 30, 2014 and June 30, 2013:

Key Financial Highlights - Statement of Comprehensive Income	Three Months Ended June 30			
	2014 (unaudited)	2013 (unaudited)	\$ Change	% Change
(Thousands of Canadian dollars)				
Expenses¹				
Screening services and other related costs	\$ 95,879	\$ 85,449	\$ 10,430	12%
Program support and corporate services	19,725	20,879	(1,154)	(6%)
Depreciation and amortization	14,249	16,271	(2,022)	(12%)
Equipment operating and maintenance	11,585	10,941	644	6%
Total expenses	\$ 141,438	\$ 133,540	\$ 7,898	6%
Total other expenses (income)	(202)	431	(633)	(147%)
Financial performance before government funding	\$ 141,236	\$ 133,971	\$ 7,265	5%
Government funding				
Parliamentary appropriations for operating expenses	\$ 124,041	\$ 114,490	\$ 9,551	8%
Amortization of deferred government funding related to capital expenditures	14,243	16,775	(2,532)	(15%)
Total government funding	\$ 138,284	\$ 131,265	\$ 7,019	5%
Financial performance and total comprehensive loss	\$ (2,952)	\$ (2,706)	\$ (246)	9%

¹ The Statement of Comprehensive Income presents operating expenses by program activity, whereas operating expenses above are presented by major expense category, as disclosed in note 10 of the unaudited condensed interim financial statements for the three months ended June 30, 2014.

The following table provides key highlights of the Statement of Financial Position as at June 30, 2014 and March 31, 2014:

Key Financial Highlights - Statement of Financial Position	June 30,	March 31,	\$ Change	% Change
	2014	2014		
(Thousands of Canadian dollars)				
Total assets	\$ 388,296	\$ 439,601	\$ (51,305)	(12%)
Total liabilities	\$ 400,378	\$ 448,731	\$ (48,353)	(11%)

ANALYSIS OF FINANCIAL PERFORMANCE

The following section provides information on key variances within the Statement of Comprehensive Income for the three months ended June 30, 2014, compared to the same period of the prior fiscal year.

RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2014

Screening services and other related costs

Screening services and other related costs increased by \$10,430 (12%) for the three months ended June 30, 2014, compared to the same period in 2013. This is mainly attributable to an increase in payments to screening contractors for NPS.

In 2013/14, Transport Canada and CATSA developed a risk-based strategy to enhance the NPS program in support of the strengthened International Civil Aviation Organization standard for NPS and security controls. The implementation of enhanced NPS activities began in 2013/14, resulting in an increase in screening hours purchased.

Depreciation and amortization

Depreciation and amortization decreased by \$2,022 (12%) for the three months ended June 30, 2014, compared to the same period in 2013. The decrease is primarily due to certain computers, integrated software and electronic equipment becoming fully amortized, as well as a revision of the estimated useful life of certain HBS equipment during the quarter.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by \$9,551 (8%) for the three months ended June 30, 2014, compared to the same period in 2013. The increase is primarily due to increased spending for screening services and other related costs, as previously discussed.

Amortization of deferred government funding related to capital expenditures

Amortization of deferred government funding related to capital expenditures decreased by \$2,532 (15%) for the three months ended June 30, 2014, compared to the same period in 2013. The decrease is primarily due to decreased depreciation and amortization, as previously discussed.

ANALYSIS OF FINANCIAL POSITION

The following section provides information on key variances within the Statement of Financial Position as at June 30, 2014, compared to March 31, 2014.

TOTAL ASSETS

Total assets decreased by \$51,305 (12%) primarily due to the following:

- Decrease in trade and other receivables by \$72,681 primarily due to a decrease in parliamentary appropriations receivable, as a result of the timing of cash requests made to the Consolidated Revenue Fund and July appropriations being received in June. In addition, recoverable sales taxes decreased as a result of reimbursements received in the quarter;
- Decrease in property and equipment and intangible assets by \$5,484 primarily due to depreciation and amortization, partially offset by the acquisition and installation of capital assets; and
- Increase in cash by \$29,737 primarily due to the early receipt of July appropriations, as well as the receipt of tax reimbursements during the quarter.

TOTAL LIABILITIES

Total liabilities decreased by \$48,353 (11%) primarily due to the following:

- Decrease in trade and other payables by \$41,767 primarily due to timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to capital expenditures by \$5,484 due to amortization exceeding parliamentary appropriations earned.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's 2014/15 Summary of the Corporate Plan has not been tabled in Parliament at the time of publishing. Until it is tabled in Parliament and made public, CATSA will not be in a position to provide an explanation of significant differences between its financial results compared to those anticipated in its 2014/15 Summary of the Corporate Plan.

PARLIAMENTARY APPROPRIATIONS USED

CATSA's operations are funded by parliamentary appropriations from the Government of Canada. The amount of parliamentary appropriations used is reported on a near-cash accrual basis of accounting. Accordingly, the table below serves to reconcile operating expenses reported under IFRS and operating appropriations used:

Reconciliation of Total Expenses to Operating Appropriations Used (Thousands of Canadian dollars)	Three Months Ended June 30	
	2014 (unaudited)	2013 (unaudited)
Total expenses	\$ 141,438	\$ 133,540
Finance income, finance cost and foreign exchange gain/loss	(185)	1
Non-cash operating expenses		
Depreciation and amortization	(14,249)	(16,271)
Employee benefits expense ¹	(1,837)	(1,499)
Employee cost accruals ²	(1,177)	(1,263)
Spare parts expense funded from capital ³	(11)	(75)
Deferred lease incentives ⁴	62	57
Parliamentary appropriations for operating expenses	124,041	114,490
Other items affecting funding		
Net change in prepaids and inventories ⁵	(1,554)	(356)
Total operating appropriations used	\$ 122,487	\$ 114,134

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

² Employee cost accruals are accounting expenses to record variable pay and accrued vacation expenses incurred to June 30, 2014. These costs are funded by appropriations at year-end, creating a reconciling item.

³ Spare parts expense funded from capital represents items that were funded from capital appropriations in prior years but were used as spare parts and expensed during the current year, creating a reconciling item.

⁴ Deferred lease incentives is a non-cash accounting adjustment to record the benefit derived from favourable lease terms, including significantly reduced rent and free common area costs. Rental costs are funded by appropriations when paid, creating a reconciling item.

⁵ Prepaids and inventories are expensed as the benefit is derived from the asset by CATSA. They are funded by appropriations when purchased, creating a reconciling item.

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

Reconciliation of Capital Acquisitions to Capital Appropriations Used	Three Months Ended	
	June 30	
(Thousands of Canadian dollars)	2014	2013
	(unaudited)	(unaudited)
Explosives Detection Systems	\$ 8,745	\$ 2,454
Non-Explosives Detection Systems	35	889
Total capital asset acquisitions	\$ 8,780	\$ 3,343
Proceeds on disposal of property and equipment	(21)	-
Total capital appropriations used	\$ 8,759	\$ 3,343

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with the Treasury Board of Canada Secretariat's *Standard on Quarterly Financial Reports for Crown Corporations*, and for such internal controls as management determines are necessary to enable the preparation of condensed interim financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed interim financial statements.

Based on our knowledge, these unaudited condensed interim financial statements present fairly, in all material respects, the financial position, results of comprehensive income, changes in equity and cash flows of CATSA, as at the date of and for the periods presented in the condensed interim financial statements.



Angus Watt
President and Chief Executive Officer
Ottawa, Canada

August 25, 2014



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

August 25, 2014

Condensed Interim Financial Statements of

**CANADIAN AIR TRANSPORT SECURITY
AUTHORITY**

Three months ended June 30, 2014 and 2013

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	June 30, 2014	March 31, 2014
Assets		
Current assets		
Cash	\$ 35,928	\$ 6,191
Trade and other receivables (note 4)	39,959	112,640
Inventories (note 5)	15,727	17,065
Prepaid expenses	2,672	2,888
	<u>94,286</u>	<u>138,784</u>
Non-current assets		
Employee benefits (note 9)	6,697	8,020
Property and equipment (note 6)	283,445	288,040
Intangible assets (note 7)	3,868	4,757
	<u>294,010</u>	<u>300,817</u>
	<u>\$ 388,296</u>	<u>\$ 439,601</u>
Liabilities and Equity		
Current liabilities		
Trade and other payables	\$ 77,064	\$ 118,831
Deferred government funding related to operating expenses (note 8)	18,399	19,953
	<u>95,463</u>	<u>138,784</u>
Non-current liabilities		
Deferred lease incentives	991	1,053
Deferred government funding related to capital expenditures (note 8)	287,313	292,797
Employee benefits (note 9)	16,611	16,097
	<u>304,915</u>	<u>309,947</u>
Equity		
Accumulated deficit	(12,082)	(9,130)
	<u>\$ 388,296</u>	<u>\$ 439,601</u>

Commitments (note 12) and contingent liabilities (note 14)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Comprehensive Income
(Unaudited)

(In thousands of Canadian dollars)

	Three months ended June 30	
	2014	2013
Expenses		
Pre-Board Screening	\$ 78,434	\$ 79,727
Hold Baggage Screening	35,876	34,620
Non-Passenger Screening	15,367	4,831
Corporate services	11,024	13,543
Restricted Area Identity Card Program	737	819
Total expenses (note 10)	141,438	133,540
Other expenses (income)		
Finance income	(117)	(104)
Foreign exchange loss (gain)	(69)	105
Loss (gain) on property and equipment	(17)	429
Finance cost	1	1
Total other expenses (income)	(202)	431
Financial performance before government funding	141,236	133,971
Government funding		
Parliamentary appropriations for operating expenses (note 8)	124,041	114,490
Amortization of deferred government funding related to capital expenditures (note 8)	14,243	16,775
Total government funding	138,284	131,265
Financial performance and total comprehensive loss	\$ (2,952)	\$ (2,706)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Changes in Equity
(Unaudited)

(In thousands of Canadian dollars)

For the three months ended June 30:

	Accumulated deficit
Balance, March 31, 2013	\$ (18,472)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(2,706)
<hr/> Balance, June 30, 2013	<hr/> \$ (21,178)
Balance, March 31, 2014	\$ (9,130)
Financial performance and total comprehensive loss that will not be reclassified to financial performance	(2,952)
<hr/> Balance, June 30, 2014	<hr/> \$ (12,082)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Cash Flows

(Unaudited)

(In thousands of Canadian dollars)

	Three months ended	
	June 30	
	2014	2013
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ (2,952)	\$ (2,706)
Items not involving cash		
Depreciation of property and equipment (note 10)	13,348	14,938
Increase in net employee benefits liability	1,837	1,499
Amortization of intangible assets (note 10)	901	1,333
Amortization of deferred government funding related to capital expenditures (note 8)	(14,243)	(16,775)
Decrease in deferred lease incentives	(62)	(57)
Loss (gain) on property and equipment	(17)	429
Other non-cash transaction	-	25
Net change in non-cash working capital balances (note 13)	32,737	7,311
	31,549	5,997
Investing activities		
Parliamentary appropriations received for capital funding	39,000	10,000
Purchase of property and equipment	(40,800)	(14,971)
Purchase of intangible assets	(12)	(358)
	(1,812)	(5,329)
Increase in cash	29,737	668
Cash, beginning of period	6,191	9,076
Cash, end of period	\$ 35,928	\$ 9,744

Supplementary cash flow information (note 13)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2014 and 2013
(In thousands of Canadian dollars)

1. Authority, mandate and programs

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

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

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

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

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

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.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2014 and 2013
(In thousands of Canadian dollars)

2. Basis of preparation

The condensed interim financial statements have been prepared in accordance with the *Standard on Quarterly Financial Reports for Crown Corporations* as published by the Treasury Board of Canada Secretariat (TBS Standard). These statements have not been audited or reviewed by CATSA's external auditors.

The TBS Standard requires interim financial statements be prepared based on the recognition and measurement standards used in the preparation of the audited annual financial statements. Accordingly, the interim financial statements have been prepared based on recognition and measurement standards applicable under IFRS. The interim financial statements do not contain all necessary disclosures to conform, in all material respects, with IFRS disclosure requirements applicable to annual and quarterly financial statements. They should be read in conjunction with the most recent audited annual financial statements and the narrative discussion included within the Quarterly Financial Report for the three months ended June 30, 2014.

3. Summary of significant accounting policies

Significant accounting policies used in these condensed interim financial statements are disclosed in note 3 of CATSA's audited annual financial statements for the year ended March 31, 2014, except for the application of the new standards effective April 1, 2014 described in note 3(q) of the audited annual financial statements.

4. Trade and other receivables

Trade and other receivables are comprised of:

	June 30, 2014	March 31, 2014
Parliamentary appropriations	\$ 33,923	\$ 96,677
GST and HST recoverable	5,388	14,146
PST recoverable	623	1,741
Other	25	76
	<hr/>	<hr/>
	\$ 39,959	\$ 112,640

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2014 and 2013
(In thousands of Canadian dollars)

5. Inventories

Inventories are comprised of:

	June 30, 2014	March 31, 2014
Spare parts	\$ 15,118	\$ 15,381
Uniforms	516	1,460
RAIC	93	224
	<u>\$ 15,727</u>	<u>\$ 17,065</u>

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2014 and 2013
(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 equip- ment	Leasehold improve- ments	Work-in- progress	Total
Cost									
Balance, March 31, 2014	\$ 121,416	\$ 653,491	\$ 5,183	\$ 4,538	\$ 23,444	\$ 95	\$ 10,119	\$ 75,344	\$ 893,630
Additions	14	156	-	-	11	-	-	8,587	8,768
Disposals	-	(2,361)	-	-	-	-	-	-	(2,361)
Write-offs	(48)	(19)	-	(73)	-	-	(6)	-	(146)
Reclassifications	1,893	10,786	981	-	102	-	-	(13,762)	-
Balance, June 30, 2014	\$ 123,275	\$ 662,053	\$ 6,164	\$ 4,465	\$ 23,557	\$ 95	\$ 10,113	\$ 70,169	\$ 899,891
Accumulated depreciation									
Balance, March 31, 2014	\$ 63,353	\$ 506,994	\$ 2,841	\$ 3,270	\$ 19,976	\$ 95	\$ 9,061	\$ -	\$ 605,590
Depreciation	2,265	10,402	98	169	319	-	95	-	13,348
Disposals	-	(2,361)	-	-	-	-	-	-	(2,361)
Write-offs	(48)	(7)	-	(69)	-	-	(7)	-	(131)
Balance, June 30, 2014	\$ 65,570	\$ 515,028	\$ 2,939	\$ 3,370	\$ 20,295	\$ 95	\$ 9,149	\$ -	\$ 616,446
Carrying amounts									
As at March 31, 2014	\$ 58,063	\$ 146,497	\$ 2,342	\$ 1,268	\$ 3,468	\$ -	\$ 1,058	\$ 75,344	\$ 288,040
As at June 30, 2014	\$ 57,705	\$ 147,025	\$ 3,225	\$ 1,095	\$ 3,262	\$ -	\$ 964	\$ 70,169	\$ 283,445

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2014 and 2013
(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, 2014	\$ 4,188	\$ 18,186	\$ 64	\$ 22,438
Additions	-	6	6	12
Write-offs	(417)	-	-	(417)
Balance, June 30, 2014	\$ 3,771	\$ 18,192	\$ 70	\$ 22,033
Accumulated amortization				
Balance, March 31, 2014	\$ 2,872	\$ 14,809	\$ -	\$ 17,681
Amortization	167	734	-	901
Write-offs	(417)	-	-	(417)
Balance, June 30, 2014	\$ 2,622	\$ 15,543	\$ -	\$ 18,165
Carrying amounts				
At March 31, 2014	\$ 1,316	\$ 3,377	\$ 64	\$ 4,757
At June 30, 2014	\$ 1,149	\$ 2,649	\$ 70	\$ 3,868

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2014 and 2013
(In thousands of Canadian dollars)

8. Deferred government funding

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

	June 30, 2014	March 31, 2014
Deferred government funding related to operating expenses		
Balance, beginning of period	\$ 19,953	\$ 20,442
Parliamentary appropriations billed	126,165	475,438
Parliamentary appropriations to be used in future periods	(3,678)	-
Parliamentary appropriations recognized as government funding for operating expenses	(124,041)	(475,927)
Balance, end of period	\$ 18,399	\$ 19,953
Deferred government funding related to capital expenditures		
Balance, beginning of period	\$ 292,797	\$ 274,523
Parliamentary appropriations billed	21,696	81,239
Parliamentary appropriations to be used in future periods	(12,937)	-
Amortization of deferred government funding related to capital expenditures	(14,243)	(62,965)
Balance, end of period	\$ 287,313	\$ 292,797
Total deferred government funding, end of period	\$ 305,712	\$ 312,750

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2014 and 2013
(In thousands of Canadian dollars)

9. Employee benefits

On a quarterly basis, CATSA's net asset or liability for the defined benefit component of the registered pension plan (RPP), the supplementary retirement plan (SRP) and the other defined benefits plan (ODBP) is updated for differences between estimated net benefit cost, as determined in the most recent annual actuarial valuations, and actual employer contributions to the plans. The net asset or liability is only updated for significant market fluctuations at the end of every fiscal year, with the assistance of the pension plans' actuary.

The following table provides the expense and contributions relating to these plans for the three months ended June 30:

	Three months ended	
	June 30	
	2014	2013
Expense		
RPP	\$ 2,123	\$ 2,375
SRP	38	55
ODBP	558	622
	<u>\$ 2,719</u>	<u>\$ 3,052</u>
Contributions		
RPP	\$ 838	\$ 1,519
SRP	-	-
ODBP	44	34
	<u>\$ 882</u>	<u>\$ 1,553</u>

The current service cost and the benefit obligation of these plans are actuarially determined on an annual basis. The significant assumptions used to determine CATSA's obligations are disclosed in note 10 of the audited annual financial statements for the fiscal year ended March 31, 2014.

For the three months ended June 30, 2014, CATSA recognized an expense in the amount of \$14 (2013 - \$Nil) in relation to the defined contribution component of the RPP.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2014 and 2013
(In thousands of Canadian dollars)

10. Expenses

The Statement of Comprehensive Income presents operating expenses by program activity. The following table presents operating expenses by major expense type for the three months ended June 30:

	Three months ended	
	June 30	
	2014	2013
Screening services and other related costs		
Payments to screening contractors	\$ 94,033	\$ 84,192
Uniforms and other screening costs	1,317	870
Trace and consumables	529	387
	95,879	85,449
Program support and corporate services		
Employee costs	15,347	15,392
Operating leases	1,301	1,510
Professional services and other business related costs	1,050	1,416
Office and computer expenses	1,022	1,355
Other costs	846	988
Communications	159	218
	19,725	20,879
Depreciation and amortization		
Depreciation of property and equipment	13,348	14,938
Amortization of intangible assets	901	1,333
	14,249	16,271
Equipment operating and maintenance		
Equipment maintenance and spare parts	10,631	10,612
Training and certification	823	151
RAIC	131	178
	11,585	10,941
	\$ 141,438	\$ 133,540

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Notes to Condensed Interim Financial Statements
(Unaudited)

For the three months ended June 30, 2014 and 2013
(In thousands of Canadian dollars)

11. Government funding

CATSA's 2014/15 *Summary of the Corporate Plan* has not yet been tabled in Parliament and, therefore, the total amount of parliamentary appropriations available for the current year is not yet public. As a result, disclosure of parliamentary appropriations approved compared to parliamentary appropriations used has not been provided.

The following table reconciles parliamentary appropriations that were received and receivable in relation to operating expenses, to the amount of appropriations used during the three months ended June 30:

	Three months ended	
	June 30	
	2014	2013
Parliamentary appropriations received and receivable	\$ 181,603	\$ 149,522
Amounts received and receivable related to prior periods	(55,438)	(36,287)
Amounts to be billed (used) in future periods	(3,678)	899
<u>Parliamentary appropriations used for operating expenses</u>	<u>\$ 122,487</u>	<u>\$ 114,134</u>

Parliamentary appropriations related to operating expenses to be billed (used) in future periods are a result of forecasted expenditures lower (higher) than actual operating expenditures. These amounts are expected to be billed (used) and recognized in financial performance within the next fiscal quarter.

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The following table reconciles parliamentary appropriations that were received and receivable in relation to capital expenditures, to the amount of appropriations used during the three months ended June 30:

	Three months ended	
	June 30	
	2014	2013
Parliamentary appropriations received and receivable	\$ 62,935	\$ 24,002
Amounts received and receivable related to prior periods	(41,239)	(9,398)
Amounts to be used in future periods	(12,937)	(11,261)
<u>Parliamentary appropriations used for capital expenditures</u>	<u>\$ 8,759</u>	<u>\$ 3,343</u>

Parliamentary appropriations related to capital expenditures to be used in future periods are a result of forecasted expenditures higher than actual capital expenditures. These amounts are expected to be used and recognized in financial performance within the next fiscal quarter.

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12. Commitments

(a) Operating leases

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

	June 30, 2014	March 31, 2014
No later than 1 year	\$ 7,262	\$ 7,575
Later than 1 year and no later than 5 years	24,558	25,481
Later than 5 years	16,909	18,042

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

(b) Contractual obligations

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

The following table provides minimum commitments under these contractual obligations:

	June 30, 2014	March 31, 2014
No later than 1 year	\$ 565,600	\$ 552,815
Later than 1 year and no later than 5 years	1,035,374	1,113,254
Later than 5 years	7,241	9,197

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

The following table presents the net change in non-cash working capital balances for the three months ended June 30:

	Three months ended June 30	
	2014	2013
Decrease (increase) in trade and other receivables	\$ 42,440	\$ (3,651)
Decrease (increase) in inventories	1,349	(182)
Decrease in prepaid expenses	216	588
Increase (decrease) in trade and other payables	(9,714)	10,912
Decrease in deferred government funding related to operating expenses	(1,554)	(356)
	<u>\$ 32,737</u>	<u>\$ 7,311</u>

Interest income received and recognized during the three months ended June 30, 2014 totalled \$117 (2013 – \$104).

Interest expense paid and expensed during the three months ended June 30, 2014 totalled \$1 (2013 – \$1).

The change in trade and other receivables excludes an amount of \$30,241 (2013 – \$4,604) in relation to government funding related to capital expenditures, as the amount relates to investing activities.

The change in inventories excludes an amount of \$11 (2013 – \$50) in relation to a transfer of spare parts from capital assets to inventory, as the amount relates to a non-cash transaction.

The change in trade and other payables excludes an amount of \$32,053 (2013 – \$11,986) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

During the three months ended June 30, 2014, CATSA received non-cash proceeds of \$21 (2013 – \$Nil) related to the disposal of property and equipment, in the form of credit notes from a supplier.

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14. Contingent liabilities

During the three months ended June 30, 2014, there have been no material changes to the outstanding legal actions involving CATSA. For a description of those legal claims, refer to note 17 of the audited annual financial statements for the year ended March 31, 2014.