



CATSA ACSTA

ANNUAL REPORT | 2019

Canada



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# CATSA AT A GLANCE

# 8,284

screening officers

# 444

CATSA employees

# 226

standard screening lines

# 66

CATSA Plus screening lines

# 89

designated airports across Canada

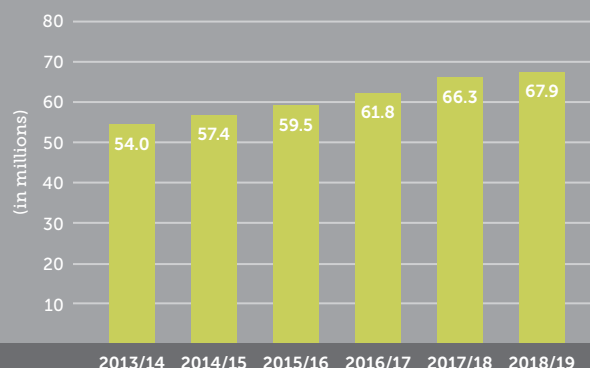
# 109

checkpoints

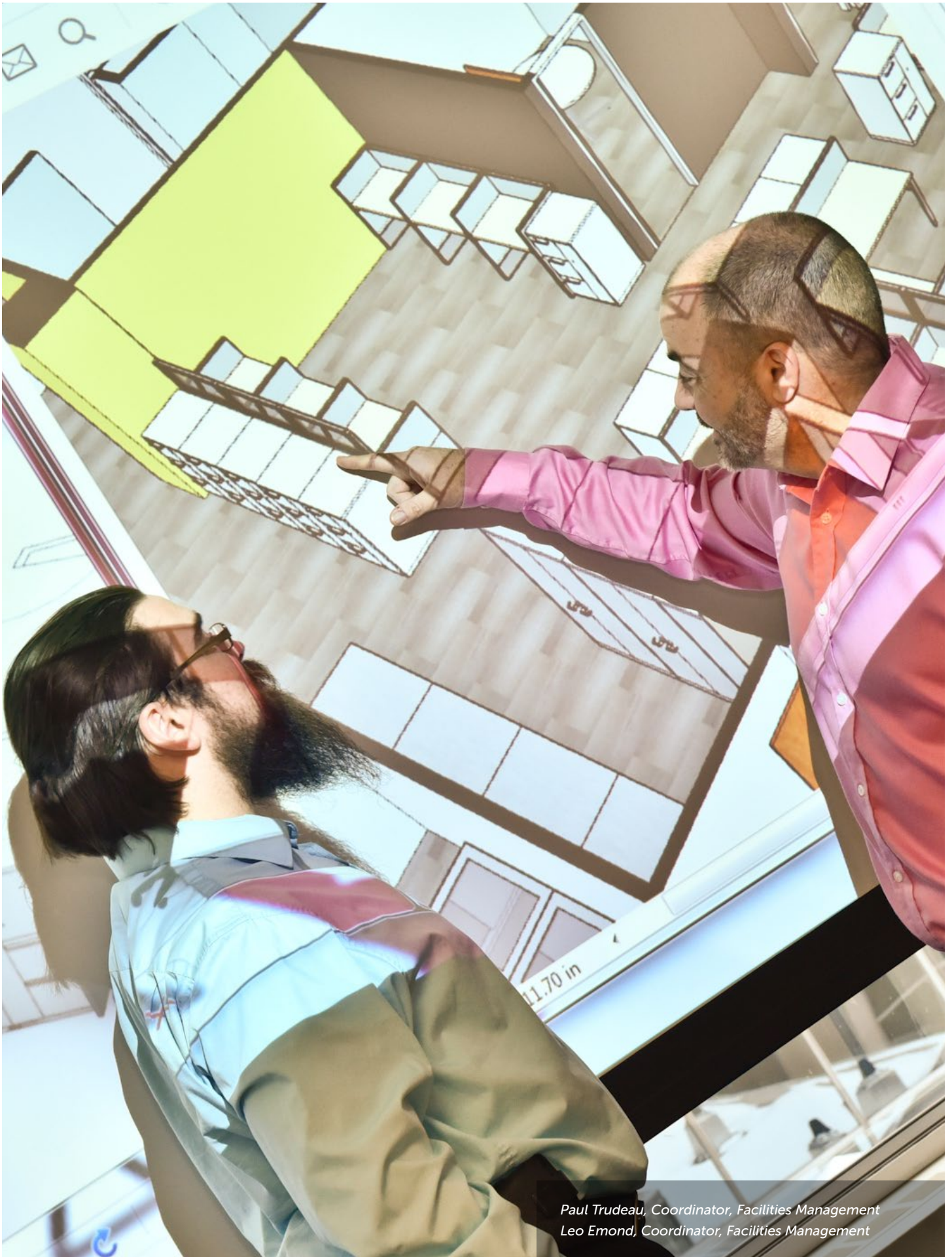
# 67.9

million passengers screened in 2018/19

### Passenger volume through CATSA checkpoints



2013/14 2014/15 2015/16 2016/17 2017/18 2018/19



*Paul Trudeau, Coordinator, Facilities Management  
Leo Emond, Coordinator, Facilities Management*

# CORPORATE PROFILE

Established on April 1, 2002, the Canadian Air Transport Security Authority (CATSA) is an agent Crown corporation funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport.

## MISSION

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

## VISION

CATSA's vision is to be a recognized global leader in aviation security screening, and the organization will achieve this vision through:

**Our service:**

We provide the best possible passenger experience and maintain the highest level of security while delivering value to Canadians with an optimal use of our resources.

**Our people:**

We are proactively engaged and committed to leading by example.

**Our partnerships:**

We work in collaboration with our partners toward common goals and interests.

# CORE RESPONSIBILITIES FOR CATSA

**As per the Treasury Board of Canada Policy on Results, Crown corporations are expected to comply with the requirement to identify Core Responsibilities in order to support the publication of the Main Estimates and the Public Accounts.**

As CATSA's mandate is very specific, the organization has one Core Responsibility that is outlined below.



## Core Responsibility

### Security Screening at Designated Airports

The Canadian Air Transport Security Authority is mandated to deliver effective, efficient and consistent screening that is in the interest of the travelling public at designated airports, by way of Pre-Board Screening, Hold Baggage Screening, Non-Passenger Screening, and Restricted Area Identity Card programs.

# MANDATED ACTIVITIES

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

## **Pre-Board Screening (PBS):**

The screening of passengers, their carry-on baggage and their belongings prior to their entry to the secure area of an air terminal building.

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

The screening of passengers' checked (or hold) baggage for prohibited items, prior to it being loaded onto an aircraft.

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

The random screening of non-passengers and their belongings, including vehicles, entering restricted areas of the aerodrome at the highest risk airports. These non-passengers include CATSA personnel, screening officers, flight and cabin crews, airline customer service personnel, baggage handlers, vendors and other airport employees.

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

The system which uses iris and fingerprint biometric identifiers to allow non-passengers access to the restricted areas of airports. The final authority that determines access to the restricted areas of an airport is the airport authority.

In addition to its mandated activities, CATSA has an agreement with Transport Canada 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.

*Message from our*  
**CHAIRPERSON**



I feel both privileged and proud to have chaired CATSA's Board of Directors through another successful year of guiding CATSA's activities, through a year of change for the Board, and toward even greater change for the organization.

CATSA welcomed two new members to our Board of Directors this year – Diane Trenn and Penny J. Westman – and I thank the federal government and our stakeholder partners for helping us secure these appointments. Diane brings 30 years of experience in the aviation field, and was nominated by the Canadian Airports Council. Penny comes to us with extensive legal expertise and experience in the insurance industry. With these additions, 6 of our 11 members are women, and our Board now boasts even better regional diversity.

**// All of our successes are made possible  
by the **contributions of CATSA's talented  
staff** and the dedicated **front-line  
screening officers.** //**



Representing the whole of Canada has been a focus for this Board. We now hold two of our quarterly meetings outside the nation's capital, to help us become more familiar with the corporation's operations in airports of various sizes and complexities, and to create opportunities for meeting directly with employees and airport stakeholders. This year we met in Toronto and Kelowna – cities whose airports have very different challenges and operating environments.

The Board provided strategic oversight of CATSA's activities in another busy year, including the expansion of CATSA Plus to two more airports in 2018/19 – Halifax Stanfield and Edmonton International – and the 10-year HBS recapitalization project, which remains on track for completion in 2020/2021. Both projects have required close collaboration with our screening contractors and airport stakeholders.

Another big undertaking is on the horizon. The Government of Canada announced in Budget 2019 its intention for CATSA to become an independent, not-for-profit entity. This decision is the outcome of the government's review of CATSA's governance model. The Board worked to support that review, and will continue working to make this transfer smooth.

I wish to thank my Board colleagues for their excellent contributions in the past year and to recognize our two outgoing Board members, Raf Souccar and Paul Benoit, for their efforts in pursuit of CATSA's important mission. We benefited greatly from their experience and expertise.

The theme of this year's Annual Report is "Our Strength is Our People," and I believe that strength is made clear in the following pages through the employee profiles featured throughout the document and the discussion of key performance results for 2018/19. All of our successes are made possible by the contributions of CATSA's talented staff and the dedicated front-line screening officers. On behalf of the Board, I thank them all for their great work, and we look forward to working together in the eventful year to come.



**Marguerite Nadeau**

*Chairperson*

*Message from our*  
**PRESIDENT AND CEO**



**// At CATSA, we know that innovation isn't technology, it's ideas, and ideas are created and implemented by people. //**

Each achievement detailed in this report, and there are many, is the result of the hard work and creativity of CATSA's people. Our dedicated staff, the front-line screening officers, our external partners and our board members all came together to ensure a very successful 2018/19.

One notable achievement is CATSA Plus, our high-performance pre-board screening concept, which we extended to two more of Canada's largest airports this year. People across our organization have worked collaboratively to make the ongoing rollout of CATSA Plus a success, and to continually find improvements along the way. Thanks to that dedication, CATSA Plus continues to be greeted with enthusiasm from airports and passengers alike.

As always, the security of the travelling public is CATSA's top priority, but as a public-facing organization we also measure our success in terms of the passenger experience. Overall passenger satisfaction reached an all-time high of 88% this year, and we performed above our targets on a number of other key metrics. We couldn't achieve these results without the excellent work and professionalism of the front-line officers employed by our screening contractors.

I have made it a priority of my tenure thus far as CEO to enrich CATSA's relationships with external organizations. This includes our screening contractors, as well as aviation-industry partners in Canada and abroad. In January we hosted a delegation from Heathrow Airport, the busiest airport in the United Kingdom. They had been impressed by how we do business and wanted to see some of our operations first-hand. We also supported the U.S. Transportation Security Agency in organizing the 2018 International Forum for Security Screening in Aviation, bringing together top executives of aviation security organizations from around the world to share ideas and best

practices. We continue to hold the vice-chair position in Airports Council International's Smart Security initiative, which is also devoted to improving information sharing among our global counterparts. We draw heavily on this source of expertise in benchmarking our performance and designing operational improvements.

Internally, we conducted the third iteration of our employee survey to examine our organizational culture and identify CATSA's strengths and weaknesses as an employer. It showed an overall sense of satisfaction that is growing year over year, and it revealed that a lot of positive progress has been made on key areas identified in previous surveys. We will use this valuable information to continue to build an engaged workforce.

As we look ahead, change is now a key focus. Budget 2019 introduced the Government of Canada's intention to table legislation that would enable current security screening operations to be transferred to an independent not-for-profit entity. The Government followed through with this commitment in April 2019. Having participated in the federal government's governance review, CATSA is fully prepared to support Transport Canada as this transfer proceeds. Indeed, we are excited about it: This change will allow for a more nimble organization that can respond more quickly to passenger growth and industry needs. I look forward to guiding CATSA through this exciting time.

While our future could look different from a governance standpoint, our mandate will continue, and in the past year we have been working diligently to position ourselves for future success. We are nearing completion of our multi-year hold-baggage-screening recapitalization, bringing upgraded technology to our HBS checkpoints and streamlining the screening process. We are also trialling new technologies and processes at pre-board screening to prepare for the introduction of emerging technologies that show promise for improving our efficiency and effectiveness. This kind of innovation is essential to managing continued passenger growth; we screened 67.9 million passengers last year – nearly two million more than the previous year. Despite this increase, CATSA exceeded our wait time service level target of 85%, delivering a wait time service level where, on average, approximately 92% of all passengers waited 15 minutes or less to be screened at Class I airports on an annual basis. This was made possible by several factors, including the deployment of CATSA Plus at airports across the country, and the efficient allocation of screening resources.

At CATSA, we know that innovation isn't technology, it's ideas, and ideas are created and implemented by people. From a systems perspective it's called "the human factor," but I call it "my team," and I am proud to lead them into another year of success.



**Michael Saunders**

*President and CEO*



## **Tom Marttinen**

*Senior Advisor, Financial Systems*

**CATSA 2018 Employee of the Year**

Tom's extensive knowledge of CATSA's processes, technological skills and accounting background make him an essential resource for the Technology branch and the Finance branch, and have ensured a remarkably low amount of downtime for CATSA's financial systems. Additionally, he leverages his combined knowledge of both technology and finance to help the design processes and systems that the Finance team use to achieve their goals in a way that benefits all of CATSA.

# ANNUAL HIGHLIGHTS

- ▶ As always, CATSA's various teams of highly qualified experts worked together to ensure the delivery of screening services across Canada was **effective, efficient, consistent and professional**.
- ▶ In 2018/19, CATSA exceeded its wait time service level target and delivered a wait time service level where, on average, **approximately 92% of all passengers waited 15 minutes or less** to be screened at Class I airports on an annual basis.
- ▶ Budget 2019 introduced the Government of Canada's intention to table **legislation that would enable CATSA to become an independent, not-for-profit entity**. The Government followed through with this commitment by tabling the *Security Screening Services Commercialization Act* as part of the *Budget Implementation Act* in April 2019.
- ▶ In collaboration with the airport authorities, **CATSA continued to deploy the CATSA Plus concept** at Vancouver International Airport, Edmonton International Airport, Toronto Pearson International Airport, Montreal-Trudeau International Airport and Halifax Stanfield International Airport.
- ▶ A **Computed Tomography technology** trial was initiated at the Winnipeg James Armstrong Richard International Airport in order to inform the next generation of PBS X-ray equipment.
- ▶ The HBS Recapitalization Program continued **on track and on budget for completion in 2020/21**.
- ▶ CATSA continued to work collaboratively and build on its relationships with key national and international stakeholders through a number of initiatives, including the Known Traveller Digital Identity project, and the **Canada/U.S. Innovation Task Force and SMART Security**.
- ▶ In its continued efforts to enhance the customer experience, CATSA participated in a variety of outreach initiatives, including **engaging with Indigenous Elders and participating in events targeting community engagement**, such as the "I am Pearson" campaign at Toronto Pearson International Airport.
- ▶ The average number of passenger complaints was **less than one complaint per 50,000** screened passengers in 2018/19.
- ▶ **Overall passenger satisfaction was at 88%**, three points higher than the corporate target of 85%.

CATSA recognizes that **strong relationships with partners are critical** to the overall positive performance of aviation security activities and to the day-to-day success of delivering its mandate.



*Gordon Archibald, Senior Legal Counsel  
Lindsey Laframboise, Legal Counsel  
Jessica Bakhos, Legal Counsel*

# OPERATING ENVIRONMENT

## Legislative Framework

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Responsibility for civil aviation security in Canada is shared among several federal government departments and agencies, as well as air carriers and airport operators. CATSA, as the civil aviation security screening authority for Canada, is regulated by Transport Canada, Canada's designated national civil aviation security authority.

CATSA is subject to domestic legislation and regulations in the way that it conducts its business and screening activities. These acts and regulations include, but are not limited to, the *CATSA Act*; *Financial Administration Act (FAA), Part X*; *Aeronautics Act*; *Canadian Aviation Security Regulations, 2012*; and *Screening Security Measures*.

The legislation and regulatory framework is the foundation that CATSA uses to develop its Standard Operating Procedures (SOPs) and training program to guide screening officers in the performance of their duties.

## Regulatory Environment

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Transport Canada is responsible for monitoring regulatory changes of its international partners, and assessing the potential impact of future regulations on Canada's aviation security system, including CATSA's screening mandate.

Over the past year, CATSA has continued to collaborate with Transport Canada and the Transportation Security Administration (TSA) on key files such as the Full Body Scanner (FBS) primary trial, selectee screening, Trusted Traveller programs and the addition of new U.S. Customs Pre-clearance sites.

Additionally, recent discussions at the International Civil Aviation Organization (ICAO) have focused on the future of non-passenger screening, which has potentially significant impacts. As a result, CATSA and Transport Canada collaborated throughout 2018/19 to present a proposal at ICAO on what the future of NPS could look like in Canada, leveraging Canada's unique advantage in having the RAIC program deployed at all major airports.

Throughout the year, CATSA also worked closely with the Canadian Transportation Agency (CTA) to provide feedback on their regulatory renewal project. An impact assessment of the changes proposed by the CTA was conducted across the organization, and it indicated that CATSA is aligned with the direction that the CTA is taking. CATSA has also been closely tracking the impact of Bill C-81 (*"An Act for a Barrier Free Canada"*) on the CTA's regulatory renewal project, as well as the bill's direct impact on the organization.

Finally, the *Transportation Modernization Act* (Bill C-49) received Royal Assent on May 23, 2018 and contains two changes to the *CATSA Act*. These changes formalize policy authority for cost recovery initiatives for designated airports that strive for expedited passenger screening, and cost recovery for screening services at non-designated airports.

## Industry Partners

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

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

CATSA also proactively shares information and discusses plans for future innovations with its stakeholders. Throughout 2018/19, CATSA met with numerous airport authorities across the country to discuss key initiatives including, but not limited to, CATSA Plus, wait time service level targets and long-term funding.

## Labour Relations

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CATSA outsources its services to screening contractors, who rely on a unionized workforce to deliver screening services. CATSA has certain responsibilities with regard to screening officers' work, such as developing SOPs, training and certification. However, given the nature of the third-party service delivery model, CATSA has no direct role in labour relations, but rather monitors the labour climate very closely, and relies upon its screening contractors to establish collective bargaining agreements and manage labour relations with their unions.

Collective bargaining agreements with expiry dates are presently being renegotiated, and settlements have been arrived at for several airport locations. CATSA works closely with screening contractors to maintain labour stability throughout these collective bargaining cycles, which is key to the organization's successful operations.



## Office of the Auditor General of Canada (OAG) – Special Examination Results

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

The last Special Examination began in 2013/14 and the OAG presented its final report to CATSA in June 2015. The OAG recognized significant improvements since the previous Special Examination that occurred in 2006. It concluded that CATSA provides reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

In last year's Annual Report, CATSA confirmed that it had completed all of the action plans stemming from the OAG's Special Examination, with the exception of the final deployment of the new Learning Management System (LMS). The CATSA LMS is a web-based system used to schedule, track, deliver and report on screening officer training and certification. A project had been launched in 2016 to replace the existing LMS with a new system intended to strengthen screening officer performance management processes, reporting and analytics, and data integrity.

After several years of intensive and detailed work, CATSA's project team launched the new LMS in October 2018. CATSA and screening contractor training representatives are now using the new LMS to maintain training and certification records, as well as curriculum content for the 8,284 screening officers across the country. The full OAG Special Examination report can be found by following [this link](#).

## Office of the Commissioner of Official Languages – Audit Report

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CATSA is dedicated to working in both official languages in designated bilingual airports and in its administrative offices.

In 2015/16, CATSA worked in collaboration with the Office of the Commissioner of Official Languages (OCOL), which conducted an audit of its services to the travelling public at screening checkpoints at Canada's eight busiest airports. The OCOL's report, containing 15 recommendations, was released in March 2018.

As of October 2018, CATSA has addressed all 15 of the OCOL's recommendations.

On a related note, amendments to the *Official Languages Act* were proposed in October 2018. CATSA has been involved in discussions relating to these amendments, and is committed to upholding the requirements of the Act now and going forward. As such, CATSA is assessing the impact of all amendments to the Act, and identifying change requirements flowing from those amendments.



# RISK LANDSCAPE

## **CATSA's ability to respond to an evolving operating and security environment is critical to the organization's success.**

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

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

- i) to deliver mandated activities in an effective, efficient and consistent manner, while safeguarding the interests of the travelling public; and
- ii) to provide services or programs in support of its mandated activities.

As a key member of the Canadian civil aviation security system, CATSA is exposed to a variety of risks that may impact the organization's ability to fulfill its mandate. Specific responses to aviation security threats and risks are mandated by Transport Canada and implemented by CATSA. In addition to intelligence-related threat information overseen by Transport Canada and risk responses, CATSA conducts various risks assessments pertaining to its corporate strategies and operations.



## Risk Governance

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

### Board of Directors

The BoD's key functions and responsibilities are to provide strategic direction, financial oversight, corporate oversight and governance. With respect to risk management, it is accountable for overseeing risk management activities including providing clear direction of risk attitude, and approving the risk management policy as well as the corporate risk profile.

### Senior Management Committee

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



## Risks and Uncertainties

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

### Mandated Services Risk

#### Detection capability

Aviation security is CATSA's top priority. Screening equipment is approved and detection standards are set by Transport Canada. While CATSA meets these standards, the organization's detection capability may be limited to the existing technology, processes or human factors. There is a risk that CATSA may not have the technology, the threat and risk information, processes or human factor capability to detect all high-risk threat items, which may result in substantial consequences to the civil aviation system.

To address this risk, CATSA continually works to review, test and improve the effectiveness of its operational processes and procedures, and maintains a capital program to support the replacement and upgrading of screening equipment. CATSA also collaborates regularly with Transport Canada to stay apprised of the threat landscape, and utilizes its Threat Detection Baseline tool to identify gaps that need to be addressed, and develop solutions to close these gaps.



### Capacity Risk

#### CATSA staff capacity

CATSA's streamlined corporate structure has made the organization leaner, however, at current human resource levels, the organization may face challenges in effectively managing the increasing workload. There is a risk that CATSA's current staff capacity may be inadequate to sustain current workloads and to support a healthy work environment.

To address this risk, the organization monitors current vacancy levels in order to prioritize staffing actions and may use fixed-term resources to alleviate workload pressures in corporate support services.

The recent decision regarding CATSA's transfer to an independent not-for-profit entity may cause this risk to evolve, as staff continue to manage their current workloads, while also handling any new tasks that arise related to the transfer process. The organization will monitor this risk closely and adjust, as required.



*Balvinder Dutta, Team Leader, Screening Performance  
Baljeet Pooni, Learning and Performance Advisor  
Bal Badyal, Performance Officer*

### Level of government funding to deliver core mandate

CATSA's current reference levels have remained flat and the organization has been relying on one-year supplemental funding to fill the funding gap. This impacts the delivery of its core mandate and the level of service to the travelling public.

Budget 2019 included a two-year funding envelope of \$597 million, consisting of \$288 million for 2019/20 and \$309 million for 2020/21, to continue to protect the public by securing critical elements of the air transportation system.

The supplemental funding for 2019/20 will allow CATSA to target a wait time service level where, on average, 85% of all passengers are waiting 15 minutes or less to be screened at Class I airports on an annual basis, and to continue to deliver its current enhanced Non-Passenger Screening program.

Following the completion of the transfer plan, the new designated screening authority will become self-funding as a revenue-generating, not-for-profit corporation, and Transport Canada will continue its role as regulator.

## Service Delivery Through Third-Party Risk

### Legal or Illegal Labour Disruptions

The majority of the collective bargaining agreements between screening contractors and unions expired on March 31, 2018, and the collective bargaining renewal process is still underway. There is a risk that illegal labour disruptions may occur as a result of union activity and/or CATSA may have limited capacity or resilience to respond to a legal labour disruption event.

To address this risk, CATSA continually monitors labour issues between screening contractors and the unions representing screening officers and keeps Transport Canada apprised of developments.

In the event of a legal or illegal labour disruption, CATSA has prepared labour contingency plans with operational, legal and communications components.

### Service delivery model – outsourcing of screening services and equipment maintenance services

CATSA is fully dependent on screening contractors for delivering critical and mandated screening services and is primarily dependent on outsourced maintenance service providers for the maintenance of screening equipment. There is a risk that CATSA's business model for outsourced screening services and equipment maintenance may result in service delivery impacts in the event that a contractor is no longer able or willing to provide the agreed-upon services.

To address this risk, CATSA continually monitors screening contractor performance and has developed a screening contractor relationship management framework, which promotes a systematic and collaborative relationship between CATSA and the screening contractors. As well, alternate maintenance arrangements have been put in place to ensure continuity of screening equipment maintenance services.

## Stakeholder Relations

Due to a variety of operational issues, there is a risk that CATSA's reputation may be damaged with its stakeholders resulting in loss of public trust or potential increased complaints.

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

## Compliance Risk

### Management of sensitive, secret or personal information

CATSA produces, collects and maintains a large amount of sensitive, secret and personal documentation and information. There is a risk that sensitive, secret or personal information in both physical and/or electronic formats across multiple platforms could be lost, stolen or disclosed inappropriately.

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

## Human Resources Risk

### Employee recruitment

CATSA endeavours to recruit the best talent available, however, there is a risk that the organization may experience challenges in recruiting key or specialized talent. This may be due to labour market conditions for talent or due to CATSA's overall corporate human resources strategies.

To address this risk, the organization has implemented a number of initiatives to ensure competitive total compensation packages and has expanded its recruitment strategies to include specialized advertising for unique or key talent.

### Employee retention

CATSA strives to maintain an engaged, high-performing workforce. There is a risk that CATSA's corporate strategies may impede the organization's ability to retain talent in key and specialized positions.

To address this risk, the organization is focusing on initiatives to retain talent including its talent management and management development programs. The organization has recently implemented a Diversity and Inclusion Framework, which aims to integrate diversity and inclusion values and practices into existing corporate processes.





## Information Technology (IT) Risk

### Cyber attacks on IT infrastructure

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

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



Nelson Realegeño, Advisor, IT Network  
Paul Gagliano, IT Client Services Officer

## Transition Risk

### Seamless Transition

In Budget 2019, the Government announced its intention to introduce legislation to enable the creation of an independent not-for-profit corporation, to be established by industry, which will assume the responsibility for aviation screening at Canada's airports. The Government followed through with this commitment by tabling the *Security Screening Services Commercialization Act* as part of the *Budget Implementation Act* in April 2019.

As CATSA is playing a supporting role in this transition, there is a risk that the organization may not have direct access to the pertinent information required to enable a seamless transition to the new entity by the targeted deadline.

CATSA will address this risk by continuing to pro-actively plan, assess and advise Transport Canada on several business impacts related to transition.

In 2018/19 approximately **92%** of all passengers waited **15 minutes or less** to be screened at Class I airports.



*Liane Gillis, Performance Officer  
Jason Turple, Manager, Airport Liaison*

# REPORTING ON RESULTS

## **CATSA realized a number of notable accomplishments that have improved its operations in 2018/19.**

These initiatives will allow CATSA to continue responding to evolving threats, realize further efficiencies and improve the passenger experience. The following sections present an overview of CATSA's progress, achievements, and performance of its mandated activities<sup>1</sup>.

While specifics vary from one program to another, CATSA assesses performance as follows:

### **Effectiveness:**

The degree to which a program achieves its desired outcome.

### **Efficiency:**

The extent to which a program's resources are maximized.

### **Consistency:**

The degree to which a program's applicable statutes, regulations, SOPs, operational policies and contractual/staffing requirements are met.

### **In the Interest of the Travelling Public:**

The extent to which a program is conducted in the interest of the travelling public.

## PRE-BOARD SCREENING

### **Key Accomplishments**

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CATSA continued delivering on its core mandate of protecting the public through effective and efficient screening of air travellers, their baggage and personal belongings.

The organization exceeded its wait time service level target and delivered a wait time service level where, on average, approximately 92% of all passengers waited 15 minutes or less to be screened at Class I airports on an annual basis.

<sup>1</sup> Due to their sensitive nature, results from PBS, HBS and NPS tests and data related to PBS security breaches are not included.



## CATSA Plus

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CATSA's success has been built in large part on a culture of continuous innovation and exemplary customer service.

The CATSA Plus initiative is an opportunity to improve the security effectiveness of the screening process through tangible checkpoint innovations and investments in high-performance screening equipment. CATSA Plus fully embraces SMART security concepts—a joint initiative between the IATA and Airports Council International (ACI).

CATSA Plus features a bin tracking system with a unique identification tag that facilitates the identification of items requiring a search by screening officers; continuous X-ray belts; remote X-ray image review processes; and motorized bag diverters with split lanes to redirect bags requiring additional screening.

CATSA Plus deployments continue to progress as planned, with the installation of another 26 lines during the past year, bringing the total number of CATSA Plus lines in-service to 66. Over 1,200 screening officers were trained and certified on CATSA Plus in 2018/19.

As a key corporate initiative, CATSA will continue to deploy new CATSA Plus lines at Canada's busiest airports going forward.

## Cost Recovery

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Since 2014, CATSA had supplemental screening agreements to trial cost recovery at PBS with the shared objective of improving passenger wait times. This initiative began on October 5, 2014, and allowed the Greater Toronto Airports Authority (GTAA) to purchase additional screening services in order to increase screening capacity and improve wait time service levels.

CATSA has recently received approval from Transport Canada to extend the ongoing agreement with the GTAA until March 31, 2020, pursuant to the authorities introduced by Bill C-49.

The Vancouver International Airport Authority (YVRAA) began purchasing supplemental PBS screening hours from CATSA on June 26, 2017 with a commitment end date of June 30, 2018. In June 2018, the YVRAA indicated that they would not continue to purchase additional screening hours beyond the expiry of the agreement.

Both of these trials allowed CATSA to facilitate the purchase of supplemental services, with positive impacts on wait time service levels at both airports.

CATSA also reached an agreement with Muskoka airport for screening services over a 10-week period beginning in June 2019. A total of 20 flights are scheduled to undergo CATSA screening during that time. At the end of the 10 weeks, Muskoka Airport Authority and CATSA can jointly agree to extend the Agreement, if desired. Transport Canada provided final approval for this agreement.

## CATSA in the Community

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As always, CATSA continues to strive towards providing the best customer service possible to passengers, from the beginning of the screening process to the end. CATSA endeavours to treat all persons with care, courtesy and respect as part of a positive and secure air travel experience.

### Engagement with Indigenous Elders

Since 2017/18, CATSA has been engaging with Indigenous Elders to look at enhancing and improving our procedures with respect to screening of sacred and spiritual items. The first round of consultations in this multi-year initiative occurred in March 2018, and identified operationally feasible objectives to enhance customer service provided to Indigenous travellers. Following this meeting, CATSA developed a multi-year engagement strategy, along with a plan outlining the development of cultural awareness training for both CATSA and screening contractor employees.

In March 2019, CATSA participated in a national-level engagement of Indigenous Elders in order to seek feedback on proposed training and procedural changes.



### Community Engagement

In 2018/19, CATSA supported several customer focused initiatives, including the “I Am Pearson” campaign at Toronto Pearson International Airport. The campaign is intended to promote excellent customer service, and screening officers have been identified as a key demographic for this program, as they are the main point of contact for passengers arriving at the screening checkpoint.

In 2018/19, CATSA once again participated in the “I CAN Fly” program at the Vancouver International Airport, which aims to help make travel more accessible for travellers with autism. The program includes an annual accessibility tour, a travel resource toolkit, a step-by-step video series, and the YVRAA Autism Access Sticker, which provides an expedited airport process through the YVR FaTrack lanes. CATSA is an active participant in this program, supporting the Vancouver Airport Authority by meeting with families and participants during the tour to deliver a brief description of what to expect at PBS.

CATSA also participated in several fundraisers for young travellers, including Dreams Take Flight, which sends children with special needs to Disneyland, and the Children’s Wish Foundation, which organizes a flight before Christmas with Santa Claus.



## Lost and Found

As the only security screening authority that possesses a Boarding Pass Security System (BPSS) coupled with networked X-ray systems and closed circuit television (CCTV), CATSA leverages technologies that were originally designed for security screening purposes to also provide benefits to passengers and assist them in locating items that are lost or left behind at the checkpoint.

In 2018/19, CATSA was able to return 2,326 lost items to passengers, thanks to the efforts of CATSA staff and screening contractor employees.

## Public Engagement

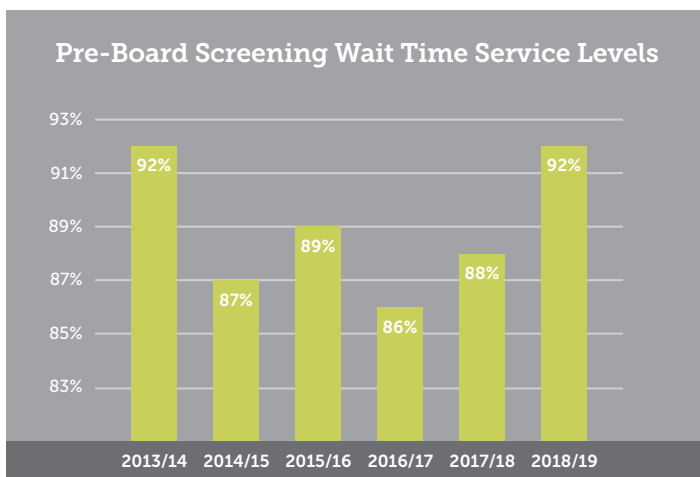
CATSA continues to ensure the travelling public is well informed as it relates to CATSA's mandate, screening procedures and associated regulations. These efforts include:

- ▶ proactively communicating security screening key messages in both general and specialized media prior to peak travel periods;
- ▶ sharing security screening tips and answering passenger enquiries daily on social media;
- ▶ offering the "Breeze Through Security" mobile app, which provides current wait times for airports, as well as information to help travellers navigate security screening more efficiently;
- ▶ conducting security screening awareness campaigns specific to travellers from various regions of the country, and during busy travel periods; and
- ▶ providing information to various community groups and advocacy associations.

## PBS Wait Time Service Levels

To ensure that CATSA's screening resources are assigned in an efficient and consistent manner in order to provide optimal service to passengers, while maintaining a high level of security, the organization uses the PBS wait time service level tool. This tool is key in the planning and allocation of CATSA's operational resources.

In 2018/19, CATSA received another one-year supplemental funding from the Government of Canada, and delivered a wait time service level where, on average, approximately 92% of all passengers waited 15 minutes or less to be screened at Class I airports on an annual basis. Over and above that, when looking at the distribution of screened passengers for that fiscal year, on average, 97% of all passengers waited 20 minutes or less to be screened at Class I airports on an annual basis.



WTSL

However, it is important to remember that this performance is reflective of an average of the wait time service level at all Class I airports across the country. In 2018/19, passengers may have been faced with longer wait times in certain instances. For example, longer wait times will occur during peak periods, when checkpoints experience very high traffic volumes. These periods can differ significantly between checkpoints and even within the same checkpoint. These deviations in service levels are mainly attributable to variables such as expected passenger volumes vs. actual volumes, flight schedules, weather related incidents, downstream processing limitations, checkpoint capacity, changing traffic patterns over time, and scheduling flexibility.

Nonetheless, CATSA continues to strive to offer the best possible experience for passengers that present themselves at screening checkpoints across Canada by working collaboratively with industry partners such as airports and air carriers.

Additionally, CATSA employs an evidence-based approach in combination with high-quality real-time data to estimate the cost of various service levels over time, and in turn provides reliable and accurate forecasts to CATSA's Board of Directors and the Government of Canada. In 2018/19, CATSA further expanded capabilities in modelling and simulation, which resulted in improved forecasting accuracy. The organization also leveraged its rich data set to build PBS simulation models for checkpoints with CATSA Plus, allowing CATSA to determine optimal layout, space and staffing configurations. Throughout 2018/19, the organization leveraged these tools and information in support of the Government of Canada's review of CATSA's governance model.

In 2018/19, CATSA also developed a forecasting model that predicts the number of passengers expected at Class I airport checkpoints per day and per hour. These forecasts utilize the latest flight schedules and account for pre-arrival times at PBS checkpoints, and the outputs from these models are used to develop preparedness plans to manage screening operations during peak periods. Going forward, CATSA will continue to update this model to improve forecast accuracy.

# CATSA IN THE REGIONS

## Managers of Regional Performance and their teams

CATSA's Managers of Regional Performance (MRPs) are responsible for the management of training delivery and CATSA's oversight program and are in charge of ensuring that everyone is set up for success. They are at the frontlines each and every day, ensuring screening officers receive all necessary training, while simultaneously assessing and evaluating their skills and performance through oversight. They identify potential gaps and frequently liaise with CATSA HQ to ensure all of the pieces work well together. They also liaise with Screening Contractors on a variety of issues, including best practices related to training, resource management and trials. The MRPs and their hardworking teams are an essential piece of CATSA's regional puzzle.

Each MRP has a team of hardworking, keen individuals who fill the positions noted below.



**Doug Pow**  
*MRP Pacific*

CATSA Employee for 15 years;  
MRP for 9 years

*“ I manage a team of 12 strong and coordinated individuals, who play an integral part in the delivery of training and the collection of performance data. Despite exceptionally heavy schedules throughout the 2018/19 fiscal year, the team forged ahead with a focus on helping Screening Personnel consistently deliver efficient, effective security screening with a strong focus on customer service. ”*



**Shannon Martens**  
*MRP Prairies*

CATSA Employee for 14 years;  
MRP for 7 years

*“ What gets measured, gets done. My team of over 20 staff is filled with difference makers, who influence change just by being at the checkpoint. There is always change and it makes me want to come to work every day to tackle something new and help make us better! ”*



## Performance Officers (POs)

Responsible for observing, recording and reporting on Screening Contractor operational performance. Their day-to-day also consists of many additional responsibilities including covert verification testing, X-Ray competency sessions, class II and III oversight, Contract Compliance Program audits, Local Decision Board Meetings and more.

## The Team Leaders (TLSPs)

Responsible for the functional administration of Performance Officers and for ensuring that program objectives are achieved on a consistent and efficient basis. They provide valuable feedback to Operations and screening contractors in weekly meetings.

## Learning and Performance Advisors (LPAs)

Responsible for training, coaching and certifying screening officers using the National Screening Officer Training and Certification program and the Ongoing Professional Development program. They provide ongoing performance coaching to SOs and assist screening contractors in conducting training exercises and simulations at the screening checkpoint.

## Certification & Training Coordinator (CTCs)

Each region has one CTC, who works extensively with the screening contractors to plan training, update LMS, CUP and PEMS and schedule all the LPA activities.



**Mark Duda**  
*MRP Central*

**CATSA Employee for 9 years;  
MRP for 8 years**

*“ The role of the MRP and their respective teams are somewhat unique within CATSA. As leader of both a culturally and professionally diverse team of 25 highly competent and detail-oriented individuals, we have a responsibility to correct, coach, mentor and apply the contractual controls given to us to continually improve. This also gives us the ability to change, shape and improve policy, procedures, programs, oversight and controls in hopes of strengthening our mandate for years to come. ”*



**Stephen Wiltshire**  
*MRP East*

**CATSA Employee for 10 years;  
MRP for 3 years**

*“ My team of 18 razor sharp individuals contribute so much on a daily basis, and are quite literally the backbone of the Region. Despite considerable staffing changes and the frequent deployment of new projects and programs, my team weathered the storm and kept plugging away one challenge after the next, without fail. We often accomplish a lot with a little. ”*

## Trusted Travellers

In January 2013, Transport Canada and the TSA agreed to harmonize PBS procedures for Trusted Travellers at transborder checkpoints as part of the action plan *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness*.

Harmonization introduces new screening procedures that provide tangible benefits to select passengers travelling to the U.S. who have undergone background screening and are deemed low risk. This includes a different screening process that takes into account their low-risk status. These passengers, for example, are not required to remove clothing such as coats, hats, belts, or shoes, and are able to keep permitted liquids in carry-on luggage. These new procedures further promote risk-based screening.

Throughout the past year, CATSA has started accepting U.S. PreCheck passengers into the Trusted Traveller (TT) lines at transborder checkpoints.

## Trials and Innovations

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CATSA regularly undertakes initiatives and trials to drive innovation, security effectiveness and efficiency in security screening.

### Full Body Scanner

Approved by Health Canada, Full Body Scanner (FBS) units use low-level radio-frequency to detect both metallic and non-metallic objects on a person. These machines are an additional layer of security for air travellers, and improve security effectiveness. Currently, FBS units are used as a secondary screening tool at PBS checkpoints.

Budget 2019 provided funding for CATSA to introduce the FBS Primary screening concept at a select number of transborder checkpoints in the coming year.

### Boarding Pass Security System

CATSA's Boarding Pass Security System (BPSS) enables boarding passes to be electronically scanned at PBS checkpoints to ensure their validity and detect fraudulent or duplicate passes. In addition to these security effectiveness benefits, BPSS has also enhanced security incident resolution and checkpoint performance monitoring. BPSS has become a crucial tool for strategic decision-making and the daily management of CATSA's operations across Canada.

In 2018/19, CATSA deployed two new versions of the BPSS system, which included enhancements such as data collection and reporting of additional screening, known traveller detection and reporting of wait times by queue type.



## Melanie Allen

*Senior Advisor, Operational Procedures,  
Regulatory Affairs and Operations Policy*

Melanie developed the CATSA Assist database of items that are either permitted or non-permitted at the checkpoint, working with a broad range of internal stakeholders to develop the concept. She and her Regulatory Affairs and Operations Policy colleagues populate and maintain the database of items, which has since grown to 600 entries. CATSA Assist has become an indispensable tool, with close to 50 devices currently installed at Class I PBS checkpoints. An additional 20 will be installed by early 2020.

### CATSA Assist

As an additional tool to help screening officers navigate their way through complex screening procedures and the vast diversity of items passengers bring through the checkpoint, CATSA trialed an innovative solution called CATSA Assist at the Ottawa International Airport's domestic/international screening checkpoint in 2017/18. CATSA Assist is a database that brings actionable information to the screening officers on the screening line by providing them information on various permitted and non-permitted items at PBS, NPS and HBS.

The first phase of the CATSA Assist trial in 2017/18 was a great success, with over 40,000 searches in the first six months of the trial. The searches gave CATSA further insight into the challenges screening officers face in terms of making decisions on specific items, which allowed for the development of targeted communication materials and ongoing training opportunities. As the database is located on the internal CATSA network, all searches can be reviewed centrally to enhance the item database with new entries as required.

Following the completion of the trial, 58 dedicated CATSA Assist devices were deployed at PBS checkpoints in Class I airports across Canada in 2018/19. Screening officers and local CATSA staff, who now have direct access to an item database at the point of need, have welcomed the installation of these devices. This has resulted in a significant improvement in the self-sufficiency and timeliness of screening staff in making key decisions on permitting or intercepting items.

Since its official deployment in early 2019, there have been over 12,000 searches from CATSA Assist devices at the screening checkpoints, and almost 30,000 searches stemming from training workstations, CATSA and screening contractor workstations or the CATSA portal.

## Queue Enhancement Trial

The Queue Enhancement trial is currently underway at the Toronto Pearson International Airport Terminal 3 PBS checkpoint, and is focused on improving queue areas in order to enhance the customer experience, and passenger flow. This trial features improved queue entrance signage to better inform passengers of various queues available and improved messaging in the queue to improve passenger preparation for screening. It also features new bin divestiture guidelines to enhance flow on screening lines.

## Simulation Model Development

Through simulation models, CATSA was able to reliably assess the impact of checkpoint, staffing or procedural changes without disturbing operations. These models were developed using specialized software and incorporate data from screening equipment as well as data collected through on-site surveys.

More specifically, CATSA created a detailed PBS simulation to assess the impact on throughput of different staffing configurations at CATSA Plus checkpoints. This simulation allowed CATSA to determine the throughput that could be achieved if the number of X-ray operators, bag searchers or other screening officer positions were reduced or increased. This model also allowed CATSA to confirm that throughput capability on CATSA Plus lines is highly sensitive to certain checkpoint characteristics, such as the number of carry-on items per passenger and search times.

CATSA also leveraged simulation to visually demonstrate the relationship between screening line throughput and wait time service levels. CATSA will continue to leverage this technology to assess operational scenarios as required.

## Computed Tomography Scans at PBS

CATSA wants to gain experience with new Computed Tomography (CT) technologies to screen carry-on baggage at PBS to inform the next generation of PBS X-ray equipment. To this end, a trial has been initiated at the Winnipeg James Armstrong Richardson International Airport.

The goal of the trial is to learn more about the capabilities of the technologies and the impact that the deployment of CT technology at PBS would have on passenger screening operations as well as CATSA's training programs.

A multi-phased trial will test different concepts of operation, which are based on different models used abroad. The outcome of the CT trial at PBS will inform CATSA's requirements and future procurement efforts.



## HOLD BAGGAGE SCREENING

In 2018/19, CATSA continued its commitment to the 10-year HBS Recapitalization Program. The program, which began in 2011, will see CATSA upgrade its systems across Canada, migrating from a five-level screening process to a three-level process.

As part of the program, CATSA upgraded its HBS systems with state of the art technologies, supporting the joint Canada-U.S. Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness Action Plan to facilitate transborder travel.

The program eliminates the need for duplicate screening and facilitates travel for passengers departing from Canada and transiting through U.S. airports.

As CATSA enters the later phases of this large-scale initiative, close oversight and sound project management practices have ensured it is on track to be completed in 2020/21. CATSA continues to work in collaboration with all stakeholders to ensure that the deployment schedule corresponds to resource availability to meet the present and future needs of each airport.

As of March 2019, the HBS Recapitalization Program consists of 45 projects at 32 airports, with 27 projects now operational and 18 currently in progress.

## NON-PASSENGER SCREENING

Consistent with ICAO standards and obligations, CATSA is required by Transport Canada to screen non-passengers accessing restricted areas of airports. Non-passengers and passengers are screened using the same equipment. Bags, tools and other items carried by non-passengers may also be checked with x-ray and explosives-detection equipment.

Following the implementation of stronger NPS standards by the ICAO in July 2013, the Enhanced NPS program was implemented at major designated airports, which account for over 90% of outbound international flights. Program enhancements at each of these airports were determined according to individual airport risk profiles.

In 2018/19, CATSA received one-year additional funding which allowed the organization to continue delivering the Enhanced NPS program.

Last year, CATSA also developed and deployed an NPS-V Traffic Management System dashboard with analytic capabilities. The dashboard provides real-time updates of each checkpoint's operational status including search rate compliance and peak throughput.

As part of this deployment, CATSA completed the installation of three permanent NPS-V facilities at several airports across Canada, with more locations planned for next fiscal year.

## RESTRICTED AREA IDENTITY CARD

CATSA and airport authorities continue to collaborate to maintain the effective, efficient and consistent operation of the Restricted Area Identity Card (RAIC) program.

When it became fully operational in 2007, the RAIC program, created by CATSA in partnership with Transport Canada and airport authorities, was the world's first dual biometric (iris and fingerprint) airport identification system for non-passengers accessing restricted areas. In recent years, CATSA invested in improving the efficiency of the RAIC enrolment system, deployed new handheld biometric readers and added three more airports to the RAIC system.

In 2018/19, CATSA awarded a contract for the design, development and maintenance of the next generation RAIC Enrollment System (RAIC ES). This new RAIC ES interface will improve enrolment efficiency and provide better tools for data management. In 2019/20, CATSA intends to test the new RAIC ES at its testing facility and deploy the new system in at least one airport in Canada. The intention is to deploy the remaining RAIC systems in 2020/21.

# CORPORATE SERVICES

## **Healthy workplace, Engaged Employees and Proactive Leadership**

CATSA continues to focus on the employee experience through our adoption of modernized policies and everyday practices that promote a healthy, flexible work environment for our employees and encourage a positive work-life balance.

This year, CATSA commissioned qualitative research on topics related to workplace culture and performance management intended to gather more in-depth views and perspectives from employees on areas of importance identified in the 2018 employee survey. The research was conducted as part of our ongoing efforts to engage employees on issues that matter to them, to inform our strategies and plans and to strengthen our workplace culture.

## **The Leadership Effectiveness Program**

Effective leadership is foundational to a healthy and positive employee experience, fostering employee engagement, and our ability to meet organizational objectives.

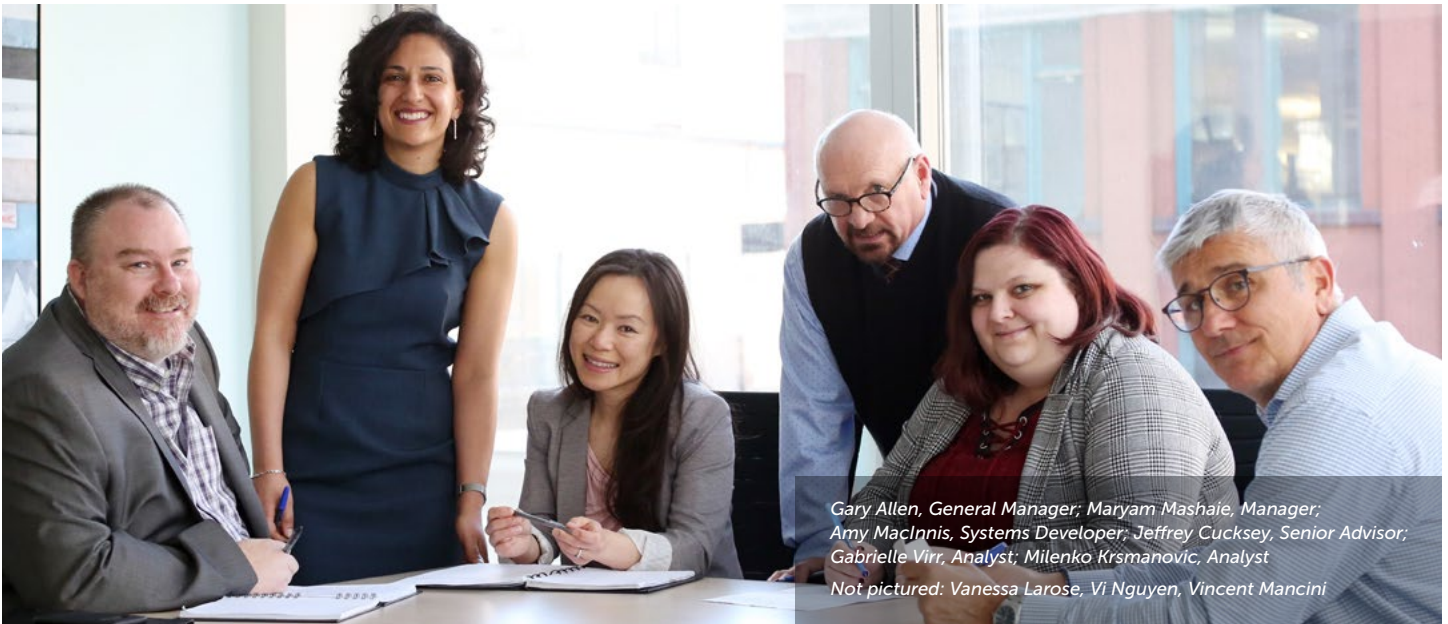
A key success this year was the launch of CATSA's Leadership Effectiveness Program (LEP), which is an important component of our overall management development approach. The LEP is a comprehensive learning solution that supports front-line managers in developing and enhancing the skills required to fulfill the leadership expectations of the organization. It is a customized solution aligned with our mandate, values, and our management skills and personal attributes.

The LEP is comprised of 12, half-day workshops. It is designed with a focus on action learning, facilitated peer coaching, and leader reinforcement. These elements create a practical experience that encourages participants to transfer their learning into the workplace. The program promotes everyday practices that contribute to a healthy, flexible work environment for our employees and encourage a positive work-life balance.

## **Business Continuity Planning**

In 2018/19, along with the annual update of its Strategic Emergency Management and Business Continuity Plans, CATSA also strengthened its Business Continuity Program by ensuring its program is in alignment with Treasury Board Secretariat's Operational Security Standard – Business Continuity Planning.

CATSA conducted an HQ-based emergency management exercise to test its ability to respond to an incident that would require the activation of the newly implemented All Hazards Response Plan.



*Gary Allen, General Manager; Maryam Mashale, Manager; Amy MacInnis, Systems Developer; Jeffrey Cucksey, Senior Advisor; Gabrielle Virr, Analyst; Milenko Kršmanović, Analyst  
Not pictured: Vanessa Larose, Vi Nguyen, Vincent Mancini*

## Business Services Management Team

The IT Business Services Management (BSM) team strives to create a strategic partnership between IT and other CATSA branches by implementing value-added and efficient IT solutions to meet business needs. The BSM team utilizes their diverse and impressive skillset to identify the needs of their clients, coordinate activities and support IT resources and stakeholders to help deliver initiatives on time and on budget.

The BSM team plays a key role in the deployment of screening lanes and have developed a number of critical tools for CATSA, including those that support front-line operations and those that help drastically reduce the manual processes that are necessary for operations.

Collectively, the BSM team facilitated 73 distinct projects and activities throughout the 2018/19 fiscal year.

## “Cut the Cord” Trial

In October 2017, a three month “Cut the Cord” trial was conducted with 53 CATSA employees to determine the feasibility of switching from a desktop telephone to a mobile device. A survey was sent to each user at the end of the trial. The response rate was very positive, with 81% of the trial participants in favour of fully eliminating the use of their landline in exchange for a cellular device. A detailed rollout plan was established, and is currently being implemented.

## Other Mandate-Related Activities

### Training

Ensuring that screening officers are appropriately trained for the situations they will encounter at checkpoints is an important element in CATSA’s ability to deliver on its mandate. To this end, CATSA works with screening contractors throughout the year on a number of training programs for the 8,284 screening officers, as well as other certified screening personnel, including front-line supervisors and training representatives.



In 2018/19, CATSA deployed the final phases of the National X-ray Exam. The results of the exam confirmed that screening officers continue to meet or exceed the standard for threat detection.

CATSA continued to deliver the Screening Officer Foundations course for new recruits, as well as new and recurrent learning opportunities for existing screening officers. CATSA's Training Development and Delivery teams also contributed to training initiatives in support of various procedural changes and ongoing trials, including CT at PBS, the FBS Primary Trial, the TSA Accessible Property Bag Search Harmonization trial and the Queue Enhancement trial.



## Stephanie Stansel

*Advisor, Learning Systems,  
Training and Certification Development*

“ I've been working at CATSA since 2005 as a member of the Training and Certification Development team. We are primarily responsible for the design, development and deployment of the training delivered to Screening Officers. As part of the Learning Systems group, I work collaboratively with my team to manage various learning applications at CATSA, focusing on ongoing quality improvements, efficiency gains, business processes, data analysis and reporting. In 2018/19, I contributed to the deployment of three interdependent learning systems that were part of a larger project called the LMS Replacement Project. ”

## The Learning Management System, CATSA User Portal and Performance Event Management System

In 2018/19, CATSA deployed the new Tactic! Learning Management System (LMS). The LMS administers, tracks and manages training and certification of screening officers. In the process of upgrading the LMS, CATSA created a new system in-house, the CATSA User Portal (CUP), which contains detailed workforce data to manage user profile accounts. Going forward, CATSA will look to optimize the functionality and reporting features of the new LMS and CUP systems.

The performance event (PE) process is a remedial process that is used when screening officers do not meet CATSA's certification standards. The Performance Event Management System (PEMS) is a web-based application that automates the administration of this process.

PEMS went live alongside the new LMS and CUP in October 2018. PEMS documents and tracks PEs and modifies screening officer certifications to perform screening functions. Among its benefits, PEMS automates notifications at critical points in the process, thereby facilitating communication and record-keeping between CATSA and screening contractors. PEMS also provides CATSA with a way to more effectively track overall screening officer performance over time. This aggregate information will ultimately improve CATSA's training and oversight programs.



## Stakeholder Relationships

Over the course of 2018/19, CATSA continued to engage in a number of collaborative initiatives with domestic and international stakeholders, focused on a variety of topics. Board members and senior management continued to build on relationships with key stakeholders through productive high-level meetings, facility tours, conferences and forums.

For example, CATSA met with the Canadian Airport Council (CAC) to discuss various topics such as CATSA Plus, wait time service level performance, governance and budget.

CATSA also participated in a variety of international conferences, including the Global Airport and Passenger Symposium and the Passenger Terminal Conference. In partnership with the TSA, CATSA also co-hosted the International Forum for Security Screening in Aviation (IFSSA), which focused on the daily challenges of the security screening process, as well as enhancing efficiencies and passenger processing at screening checkpoints. Participating in these conferences allowed the organization to continue sharing information on aviation security, passenger facilitation, and the ever-changing world of technology.

CATSA recognizes the importance of collaboration, and continues to leverage relationships with all stakeholders, proactively sharing best practices and discussing plans for future innovations. This cooperative approach will continue into 2019/20 as CATSA moves forward with the evolution of important projects and initiatives.

## Smart Security

The Airports Council International (ACI) is the sponsor of the global Smart Security initiative, which is led by the Smart Security Management Group (SSMG).

CATSA and Transport Canada are leaders in the SSMG, which consists of 15 global industry and government leaders in aviation security and steers the Smart Security initiative. With a key role in the governance of the SSMG, CATSA will continue to be influential in setting a course for passenger screening in the future.

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

CATSA is also an active participant in the Known Traveller Digital Identity (KTDI) project, which is an initiative led by World Economic Forum, a working group that brings together public and private sector leaders to rethink the global policy framework. Air traffic volumes are expected to nearly double in the next 15 years, and this growth will test infrastructure and security controls. In partnership with other members, CATSA is working towards improving passenger processing through airports, while leveraging technology such as mobile devices and biometrics to address any challenges that arise.

## Performance

### Effectiveness

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

### Efficiency

| Performance measure                       | Target       | 2016/17      | 2017/18      | 2018/19      | Comments  |
|---|--------------|--------------|--------------|--------------|---|
| <b>Screening officer attrition levels</b> | <b>20.0%</b> | <b>18.7%</b> | <b>18.0%</b> | <b>19.8%</b> | Screening officer attrition is comprised mostly of resignations due to misalignment between job functions and screening officer career development and screening officer candidates unable to meet the minimum standards. |

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

|                               |             |            |            |            |   |
|-------------------------------|-------------|------------|------------|------------|---|
| <b>PBS optimal throughput</b> | <b>N/A*</b> | <b>166</b> | <b>180</b> | <b>197</b> | CATSA drove efficiencies in the screening process, which resulted in an increase in PBS optimal throughput. |
|-------------------------------|-------------|------------|------------|------------|---|

*Definition:* The number of passengers screened per hour per line at the eight busiest airports' PBS checkpoints.

\*CATSA does not have a target for optimal throughput as it constitutes a benchmark, which reflects what CATSA is capable of achieving under optimal circumstances when the demand is sufficient.

## Consistency

| Performance measure                  | Target       | 2016/17      | 2017/18      | 2018/19      | Comments   |
|--------------------------------------|--------------|--------------|--------------|--------------|--|
| <b>Security screening compliance</b> | <b>98.0%</b> | <b>95.3%</b> | <b>95.4%</b> | <b>95.3%</b> | Overall, a positive trend in security screening compliance was observed, with results for 2018/19 consistent with 2017/18. CATSA will continue to work with screening contractors to achieve sustained continuous improvement in the year ahead. |

*Definition:* The evaluation by Performance Officers of screening officer performance according to SOPs and regulations related to Class I airport PBS screening equipment (ETD, HHMD, WTMD and X-Ray) and screening techniques (physical search of persons and bags).

*Note:* This excludes criteria related to OLA and BPSS compliance.

|  |              |              |              |              |   |
|--|--------------|--------------|--------------|--------------|---|
| <b>National Training and Certification Program (NTCP) success rate</b> | <b>90.0%</b> | <b>87.7%</b> | <b>87.7%</b> | <b>86.4%</b> | The NTCP success rate comprises results from SOF, EDX and CT training courses. Overall, the NTCP success rate was 86.4%, down 1.3 percentage points from the previous year. SOF training results fell slightly below target at 88.7% with a decrease of 2.4 percentage points from previous year. CT pass rates fell 4.2 percentage points to 76.3%, down from 80.5% from the previous year. No EDX training was delivered this fiscal year. Training volumes increased slightly to 2,166 total training attempts compared to 2,128 in the previous year. |
|--|--------------|--------------|--------------|--------------|---|

*Definition:* The percentage of all successful attempts at screening officer training courses (number of successful attempts / number of total attempts). This performance measure combines results for Screening Officer Foundations (SOF), the PBS initial certification program that all screeners must have and maintain, as well as explosive detection X-ray (EDX) and Computed Tomography (CT) which are additional certifications related to HBS that only a fraction of screeners obtain based on operational requirements.

## In the Public Interest

| Performance measure   | Target       | 2016/17      | 2017/18      | 2018/19      | Comments  |
|---|--------------|--------------|--------------|--------------|---|
| <b>Confidence in security screening</b>   | <b>75.0%</b> | <b>77.5%</b> | <b>80.0%</b> | <b>83.3%</b> | Confidence in CATSA security screening continued to increase in 2018/19, maintaining above target performance (75%) for the third consecutive year. |
| <p><i>Definition:</i> The percentage of passengers who express high confidence in CATSA security screening. Calculated from results of completed surveys at select busiest airports. High confidence is defined as answering 5, 6 or 7 on a 7-point scale survey questionnaire.</p> |              |              |              |              |   |
| <b>Satisfaction with overall screening experience</b>   | <b>85.0%</b> | <b>85.1%</b> | <b>86.0%</b> | <b>87.3%</b> | Overall satisfaction with security screening also continued to increase in 2018/19, reaching an all-time high of 87.3%.                             |
| <p><i>Definition:</i> The percentage of passengers surveyed who express satisfaction with their overall experience with security screening at select busiest airports.</p>  |              |              |              |              |   |
| <b>Customer Satisfaction Index</b>  | <b>85.0%</b> | <b>83.4%</b> | <b>84.3%</b> | <b>88.3%</b> | Customer Satisfaction Index improved by 4% since 2017/18. Satisfaction with Courtesy and respect has improved the most (1.7% since 2017/18).        |

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

# LOOKING AHEAD



## Jason Anderson

*Manager, Financial Planning*

// As Manager of the Financial Planning team, I work with internal clients to better understand their business plans and translate their requirements into financial terms, ensuring the necessary funds are secured to achieve their goals. As a team, in addition to the day-to-day business of helping clients manage their budgets, we also tackle a myriad of new initiatives, projects and funding submissions. This brings many interesting challenges throughout any given year, and 2018/19 was no exception. This variety and close connection to the operations on the ground has kept things exciting ever since I joined CATSA in 2010. //

## Meeting expectations with passenger wait time service levels

In 2018/19, CATSA screened 67.9 million passengers at all designated airports across Canada. In 2019/20, passenger volume is anticipated to grow to 71.3 million passengers, and by 2021/22, it is expected to reach over 78 million.

Given steadily increasing passenger growth across Canada, maintaining a consistent service level is important for CATSA to ensure an efficient process at security checkpoints, and that the integrity of the screening process is sustained.

Budget 2019 included a two-year funding envelope of \$597 million, consisting of \$288 million for 2019/20 and \$309 million for 2020/21, to continue to protect the public by securing critical elements of the air transportation system.

The supplemental funding for 2019/20 will allow CATSA to target a wait time service level where, on average, 85% of all passengers are waiting 15 minutes or less to be screened at Class I airports on an annual basis, and to continue to deliver its current Enhanced Non-Passenger Screening program.

## CATSA's Governance

At the beginning of 2017/18, the Government of Canada launched a governance model review of CATSA in an effort to achieve a more sustainable and predictable funding model for the organization. Since then, CATSA has worked closely with government and stakeholders – particularly Transport Canada – to evaluate the various governance options being considered.

Budget 2019 introduced the Government of Canada's intention to table legislation that would enable CATSA to become an independent, not-for-profit entity. The Government of Canada followed through with this commitment by tabling the *Security Screening Services Commercialization Act* as part of the *Budget Implementation Act* in April 2019. To that end, the funding envelope also includes transition resources to support Transport Canada during this transition.

In the midst of this change, CATSA's key priorities will be to continue the delivery of excellent security screening services while supporting a smooth transition.

## CATSA Plus Deployments

The changing and evolving nature of aviation security requires CATSA to strive for success through continuous innovation, adaptation and a commitment to customer service excellence. CATSA Plus is an example of all three of these pillars coming together to form a unique concept to enhance the customer experience while enhancing security effectiveness. At the end of 2018/19, 66 CATSA Plus screening lines had been deployed across Canada.

In December 2018, a revised CATSA Plus deployment plan was developed. As a key corporate initiative, CATSA will continue to deploy new CATSA Plus lines at Canada's busiest airports going forward.



### *Real People Series*

Following the implementation of the Customer Service Commitment to Passengers in 2017/18, CATSA identified a need to conduct a public campaign to enhance the reputation and image of screening officers, and to demonstrate to those screening officers that CATSA values their work and professionalism.

The objective of this campaign is to:

- ▶ enhance the reputation of CATSA's screening officers among passengers, non-passengers and the general public;
- ▶ demonstrate to screening officers that CATSA values their professionalism and their efforts to ensure the security of air travel in Canada; and,
- ▶ improve the public's trust and confidence in CATSA.

The campaign is called the *Real People* series, and was launched in April 2019. The series features photographs and videos of real screening officers from all eight Class I airports across Canada. Poster-style signs with their personal quotes will be displayed at the airports where they work, and video interviews of screening officers talking about their job, passion and personal interests will be featured on CATSA's website and various other social media platforms throughout 2019/20.

## Julie Gualtieri

*Coordinator, Corporate Secretary*

// I've been working at CATSA since 2007, and to varying degrees have been with the Corporate Secretary's office since 2013. I currently provide advisory services to the Corporate Secretariat on administrative and governance matters, and act as a conduit between our Board of Directors and Senior Management team. I work collaboratively with the various branches throughout CATSA to ensure tight coordination of documentation with respect to board deliverables, including board level approval of CATSA's major projects. 2018/19 was a particularly busy year, in part due to the successful onboarding of six new Directors, but I enjoyed every minute of it. The fast pace and new challenges are just two of the many things that keep me motivated in my role. //





# CORPORATE GOVERNANCE

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

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

- ▶ drafting, amending or repealing corporate by-laws;
- ▶ approving CATSA's Corporate Plan for recommendation to the Minister;
- ▶ monitoring corporate performance;
- ▶ approving the President and CEO's objectives for the year and evaluating his/her performance;
- ▶ ensuring the principal risks of CATSA's business are identified and that appropriate systems to manage these risks have been implemented;
- ▶ reviewing and approving management's succession plan for senior management;
- ▶ ensuring the fulfillment of the corporation's mandate; and
- ▶ establishing the corporation's strategic direction through its annual corporate plan, and for safeguarding the resources of the corporation by approving annual reports, capital and operating budgets, and major new project proposals.

As of March 31, 2019, CATSA's Board of Directors included:

- ▶ Marguerite Nadeau, Chairperson
- ▶ Diane Trenn
- ▶ Jean-Philippe Brunet
- ▶ Melissa Coulson
- ▶ Sharon Duggan
- ▶ Patricia Kennedy
- ▶ Gilles Lalonde
- ▶ Taleeb Noormohamed
- ▶ William Restall
- ▶ Allan Rowe
- ▶ Penny Westman

Read Board members' biographies [here](#).



In 2018/19, the Board of Directors continued to oversee CATSA's strategic direction through the monitoring of the operational and financial performance of the organization and alignment with the operating and financial plans as outlined in CATSA's 2018/19 Corporate Plan, as well as the corporation's quarterly financial information. The Board of Directors provided direction to CATSA's senior management concerning key risks faced by the organization and maintained an active role in monitoring CATSA's corporate governance practices. The Board of Directors also oversaw key program initiatives to promote efficient and effective passenger screening. Three standing committees assist the Board in discharging its responsibilities: the Audit Committee, the Governance, Human Resources and Pension Committee and the Strategy Committee.

## Annual Public Meeting

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On January 15, 2019, CATSA hosted its Annual Public Meeting. During the meeting, CATSA's Chairperson, Marguerite Nadeau, thanked departing Board members Paul Benoit, Jean-Marc Dufour and Dora Koop for their dedication and the guidance they provided to CATSA during their tenures. She also highlighted some of CATSA's milestones for 2018, such as the continued collaboration with airport authorities, and the further expansion of CATSA Plus. With an eye on the future, the Board and senior management worked closely with Transport Canada and Finance Canada on their review of CATSA's governance model. Other important initiatives overseen by the Board included the continued delivery of enhanced non-passenger screening to meet international obligations and CATSA's large-scale, multi-year HBS Recapitalization program.

President and CEO Michael Saunders highlighted some of CATSA's successes throughout 2018, including surpassing our wait time service level target, and echoed the Chair's support of the continued rollout of CATSA Plus. Mr. Saunders pointed out that overall passenger satisfaction, as measured by the quarterly intercept surveys, reached an all-time high. He also discussed his efforts to strengthen the organization's partnerships with the aviation industry, and shared the positive feedback regarding CATSA's performance that he received from partner organizations around the country and around the world.

Mr. Saunders also previewed some upcoming activities and expectations for 2019 and beyond. He mentioned CATSA's trial of a Computed Tomography X-ray scanner at pre-board screening at Winnipeg International Airport and noted that such technological enhancements will be crucial to managing the sustained passenger growth expected in the coming years.

A video of the meeting, including the Chairperson and CEO speeches, was posted on CATSA's website. Click [here](#) to view a video from the meeting. The public was invited to send questions and comments by email.

## Board Remuneration and Meeting Attendance

Directors and the Chairperson are paid an annual retainer and per diem set by the Governor in Council and pursuant to the *Financial Administration Act*. The retainer for the Chairperson is \$10,800; for Directors, it is \$5,400. The Chairperson is paid a per diem rate of \$420 and Directors are paid a per diem rate of \$390 for time spent preparing for and attending meetings, as well as events such as conferences, courses and trade shows. In addition, they are reimbursed for expenses related to travel, accommodation and meals while performing their duties. These expenses are posted quarterly on CATSA's website.

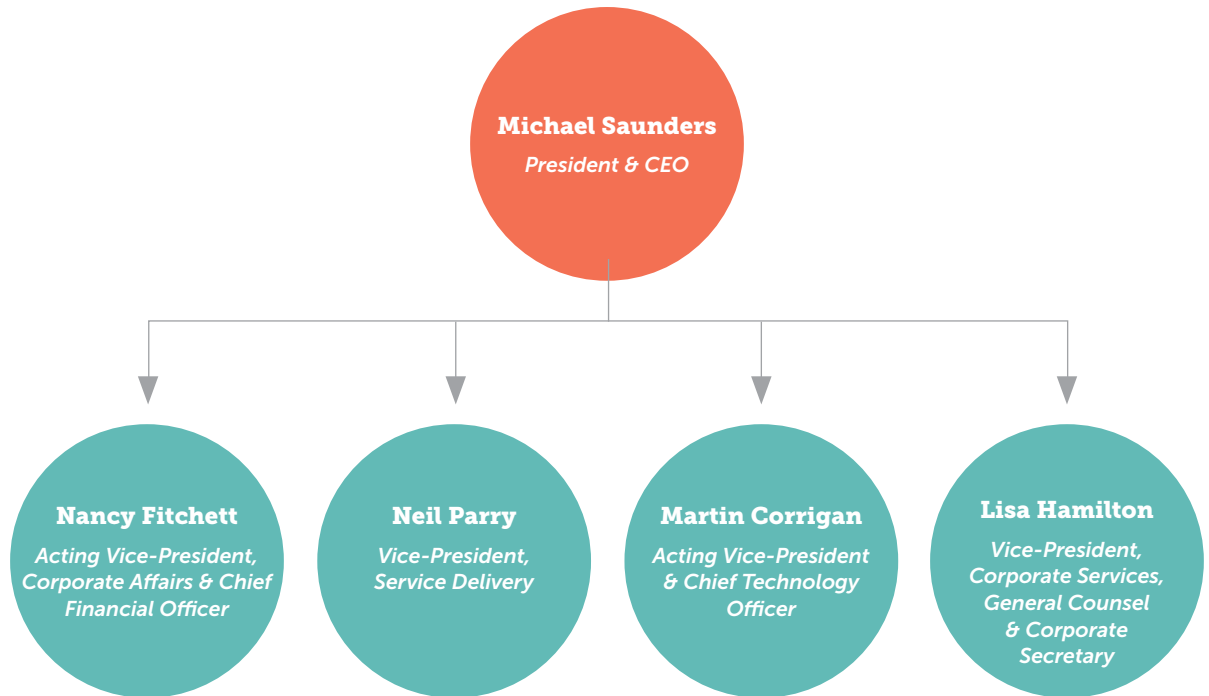
Board and committee attendance is based on the number of meetings attended out of the total number of meetings that occurred while the director was a member of the Board and/or committee. In 2018/19, the Board committees met a total of 14 times and the Board in its entirety met a total of 10 times.

| Board Member                         | Total Remuneration | Board Meetings | Committee Meetings |
|--------------------------------------|--------------------|----------------|--------------------|
| Nadeau, Marguerite (Chairperson)     | \$ 28,440          | 10/10          | 14/14              |
| Benoit, Paul *Term Ended 2018-06-13  | \$ 3,636           | 2/2            | 2/2                |
| Brunet, Jean-Philippe                | \$ 14,370          | 9/10           | 6/8                |
| Coulson, Melissa                     | \$ 14,955          | 10/10          | 10/10              |
| Duggan, Sharon                       | \$ 16,320          | 10/10          | 10/10              |
| Kennedy, Patricia                    | \$ 16,125          | 10/10          | 10/10              |
| Lalonde, Gilles                      | \$ 15,345          | 10/10          | 10/10              |
| Noormohamed, Taleeb                  | \$ 13,980          | 9/10           | 10/10              |
| Restall, William                     | \$ 14,955          | 10/10          | 8/8                |
| Rowe, Allan                          | \$ 15,540          | 10/10          | 10/10              |
| Souccar, Raf *Term Ended 2019-03-21  | \$ 13,465          | 7/10           | 6/8                |
| Trenn, Diane *Appointed 2018-06-14   | \$ 15,219          | 10/10          | 8/8                |
| Westman, Penny *Appointed 2019-03-22 | \$ 125             | –              | –                  |

Total remuneration (annual retainer and per diems) paid to directors and the Chairperson was \$182,475 in 2018/19, compared to \$180,328 in 2017/18.

## CATSA Management Team

Currently, CATSA is led by the President and CEO, Michael Saunders, on an interim basis until a permanent appointment is made by the Government of Canada. Michael Saunders is supported by a senior management team of four Vice-Presidents, each representing a specific portfolio.



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

## Disclosure

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### Report on CATSA's Official Languages Act Requirement

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

In 2018/19, CATSA achieved a national average compliance rate of 94.6% for the requirement to provide bilingual service at all bilingual designated airports. CATSA screened over 67 million passengers during this time, and received only 24 complaints related to official languages.

CATSA remains committed to promoting a bilingual work environment. In 2018/19, CATSA conducted a pilot program to offer additional learning options for employees who wish to increase their skills and fluency in both official languages.



Sylvain Monast, Manager, Service Delivery  
Diane Gagnon, Manager, Airport Liaison

## Report on *Access to Information Act* and *Privacy Act* Requests

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

CATSA is subject to the *Access to Information Act* and the *Privacy Act* and strives to meet both the spirit and the legal requirements of these two Acts.

From April 1, 2018 to March 31, 2019, CATSA received 15 requests under the *Access to Information Act*. When added to the three outstanding requests from the previous year, CATSA was responsible for 18 files in 2018/19. Compared to the previous year, the amount of pages processed decreased by 3,936 pages, a decrease of 35%.



Brigitte Bellefeuille  
Team Leader, Screening Performance



Kunal Bangia, Regional Compliance Advisor  
George Petrovic, Regional Leader, Screening Technology  
Vernon Ramadhin, Senior Advisor, Program Deployment

In addition to these requests, CATSA received 63 informal *Access to Information Act* requests that were previously released. Compared to the previous year, the number of informal requests processed decreased by one, representing a slight decrease of 1.6%.

CATSA also received 13 consultations under the *Access to Information Act* from other federal departments regarding information about CATSA that appeared in records they were reviewing.

For the same reporting period, CATSA received four requests under the *Privacy Act*, in addition to the one request outstanding from the previous year. Four requests were completed within the fiscal year.

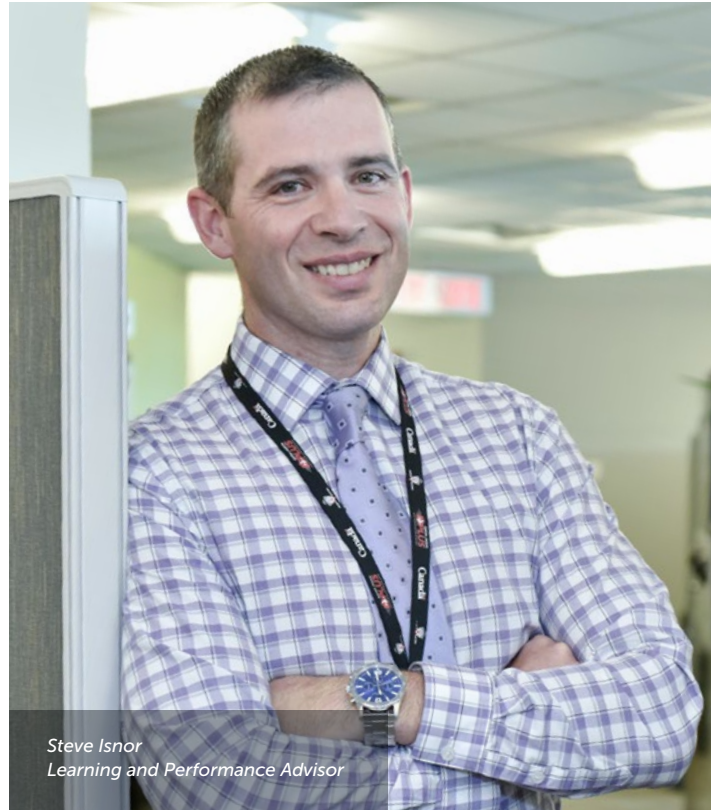
Over the course of the reporting period, ATIP-related training was delivered to 114 participants – 10 received ATIP training, 48 received privacy training and 56 received orientation training. Ad hoc training on a variety of subjects was also provided as needed to individuals throughout the organization.

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

CATSA produces and submits an annual report on fulfillment of its obligations under the *Employment Equity Act* and *Canadian Multiculturalism Act*. In 2018/19, CATSA increased its activities related to attracting, retaining and engaging an inclusive and diverse workforce. It introduced focused training initiatives and established a Diversity and Inclusion Framework. The framework was informed by CATSA's Diversity and Inclusion Network, which is comprised of and represents CATSA's diverse workforce. It will help guide our corporate culture, and the development of key performance indicators to examine three dimensions of the employee experience: talent acquisition (recruitment), career development and retention, and health and wellness.



Dominic Cyrenne  
Analyst, Systems Administration



Steve Isnor  
Learning and Performance Advisor

### ***Environmental Impact Assessment Act***

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

### ***Public Servants Disclosure Protection Act***

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

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

In 2018/19, CATSA did not receive any allegations or disclosures of wrongdoing or inquiries relating to the PSDPA.

Liana Gangasingh, Manager, Service Delivery  
Sandy Caletti, Manager, Service Delivery





# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended March 31, 2019

**Management's Discussion and Analysis (MD&A) outlines CATSA's financial results and operational changes for the year ended March 31, 2019. This MD&A should be read in conjunction with CATSA's audited annual financial statements and accompanying notes for the year ended March 31, 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The information in this report is expressed in thousands of Canadian dollars and is current to June 6, 2019, unless otherwise stated.**

## **Forward-looking statements**

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

## **Materiality**

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

## Economic Environment

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

### Economic Outlook<sup>1</sup>

Global economic growth slightly increased from 3.6% in 2017 to an estimated 3.7% in 2018. It is expected to slow down to 3.2% in 2019 and 3.3% in 2020 and 2021. In Canada, the economy grew by 3.0% in 2017 and 1.8% in 2018 (estimated), while projected to grow by 1.2% in 2019, 2.1% in 2020 and 2.0% in 2021.

### Passenger Growth and Screening Contractor Billing Rates

Economic growth generally leads to increased passenger travel. Recent projections indicate that the number of enplaned passengers at Canadian airports will increase by 5.2% in 2019 compared to 2018, and is expected to grow in each of the next 5 years.<sup>2</sup>

Passenger traffic forecasts are based on average annual growth across Canada. However, growth does not occur uniformly at all airports. Changes in passenger traffic occur largely on a regional and site-specific basis and without much warning, often as a result of changes in flight schedules or the introduction of new services by air carriers. For CATSA, an increase in passenger traffic can often lead to a higher or sudden demand for screening hours and increased operating expenditures. To support any changes in passenger volumes that may occur, CATSA closely examines its purchases of screening hours among airports. CATSA also works closely with its industry partners on the impact of operational factors, such as flight schedules, available space and passenger arrival patterns, to help manage potential issues related to large influxes of passengers.

In addition to passenger growth, screening contractor billing rates will continue to increase annually over the remaining term of the current Airport Screening Services Agreements (ASSAs) that expire on March 31, 2022. This puts further pressure on CATSA's budget for screening hours.

### Foreign Exchange

The Canadian dollar declined slightly during 2018/19, with an average Canada-U.S. exchange rate of 0.76<sup>3</sup>, compared to an average exchange rate of 0.78<sup>3</sup> in 2017/18.

CATSA is exposed to foreign exchange risk, as it plans to purchase a significant amount of equipment and services denominated in U.S. dollars in the coming years. A weakening of the Canadian dollar could result in the cost of U.S. denominated transactions exceeding budgeted amounts. CATSA has a hedging strategy in place to help mitigate its foreign exchange risk and minimize the impact of fluctuations in the Canada-U.S. exchange rate. CATSA will continue to monitor the fluctuations of the Canada-U.S. exchange rate and apply its hedging strategy accordingly.

<sup>1</sup> Bank of Canada, *Monetary Policy Report*, January 2019 for year 2017, and Bank of Canada, *Monetary Policy Report*, April 2019 for years 2018, 2019, 2020 and 2021.

<sup>2</sup> SNC Lavalin Inc., February 2019 *Air Passenger Traffic Forecasts for CATSA Designated Airports*.

<sup>3</sup> Bank of Canada, *Daily Exchange Rates Lookup*.

## Government Funding

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

CATSA continues to face a variety of challenges relating to increases in screening contractor billing rates and rising passenger volumes. Over the last four years, CATSA has received one-year incremental funding from the Government of Canada to address these pressures, pending a long-term funding solution.

Budget 2019 included a two-year funding envelope of \$597 million, consisting of \$288 million for 2019/20 and \$309 million for 2020/21, to continue to protect the public by securing critical elements of the air transportation system. The supplemental funding for 2019/20 will allow CATSA to target a wait time service level where, on average, 85% of all passengers are waiting 15 minutes or less to be screened at Class I airports on an annual basis, and to continue to deliver its current enhanced Non-Passenger Screening program.

Furthermore, through Budget 2019, the Government of Canada announced its intention to enable CATSA to transfer to an independent, not-for-profit entity. To that end, the funding envelope also provides financial resources to support the transfer.

## Compliance With Directives

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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 *Financial Administration Act* (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 the 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.

## Internal Controls

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

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

## Analysis of Financial Results

### Statement of Comprehensive Income (Loss)

The following section provides information on key variances within the Statement of Comprehensive Income (Loss) for 2018/19 compared to 2017/18.

#### Key Financial Highlights – Statement of Comprehensive Income (Loss)

| (Thousands of Canadian dollars)   | 2018/19           | 2017/18            | \$ Variance       | % Variance     |
|---|-------------------|--------------------|-------------------|----------------|
| <b>Expenses<sup>1</sup></b>   |                   |                    |                   |                |
| Screening services and other related costs                                  | \$ 594,293        | \$ 542,662         | \$ 51,631         | 9.5%           |
| Equipment operating and maintenance   | 42,258            | 38,995             | 3,263             | 8.4%           |
| Program support and corporate services                                      | 88,764            | 84,423             | 4,341             | 5.1%           |
| Depreciation and amortization   | 64,151            | 58,948             | 5,203             | 8.8%           |
| <b>Total expenses</b>   | <b>789,466</b>    | <b>725,028</b>     | <b>64,438</b>     | <b>8.9%</b>    |
| <b>Other expenses (income)</b>  | <b>370</b>        | <b>2,297</b>       | <b>(1,927)</b>    | <b>(83.9%)</b> |
| <b>Financial performance before revenue and government funding</b>          | <b>789,836</b>    | <b>727,325</b>     | <b>62,511</b>     | <b>8.6%</b>    |
| <b>Revenue</b>  | <b>12,714</b>     | <b>15,669</b>      | <b>(2,955)</b>    | <b>(18.9%)</b> |
| <b>Government funding</b>   |                   |                    |                   |                |
| Parliamentary appropriations for operating expenses                         | 704,049           | 645,498            | 58,551            | 9.1%           |
| Amortization of deferred government funding related to capital expenditures | 65,147            | 60,525             | 4,622             | 7.6%           |
| <b>Total government funding</b>   | <b>769,196</b>    | <b>706,023</b>     | <b>63,173</b>     | <b>8.9%</b>    |
| <b>Financial performance</b>  | <b>\$ (7,926)</b> | <b>\$ (5,633)</b>  | <b>\$ (2,293)</b> | <b>(40.7%)</b> |
| <b>Other comprehensive income (loss)</b>                                    | <b>6,760</b>      | <b>(11,633)</b>    | <b>18,393</b>     | <b>158.1%</b>  |
| <b>Total comprehensive income (loss)</b>                                    | <b>\$ (1,166)</b> | <b>\$ (17,266)</b> | <b>\$ 16,100</b>  | <b>93.2%</b>   |

<sup>1</sup> The Statement of Comprehensive Income (Loss) presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 11 of the audited annual financial statements for the year ended March 31, 2019.

## Screening Services and Other Related Costs

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

Payments to screening contractors are the most significant expenditures for CATSA, representing approximately 80.7% of total expenses (excluding depreciation and amortization) in fiscal year 2018/19. These expenses consist of payments to screening contractors for the delivery of services performed by screening officers, as well as for screening officer training and recurrent learning requirements. Key variables impacting these costs include the number of screening hours purchased and billing rates.

The number of screening hours purchased is mainly driven by passenger volumes and traffic patterns. New or modified security regulations arising from evolving threats and security incidents, or alignment with other jurisdictions, can also drive screening hours. Regulatory changes often result in changes to CATSA's screening procedures.

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

Screening services and other related costs increased by \$51.6M (9.5%) in 2018/19. This is primarily due to an increase in screening hours purchased of approximately \$31.2M and annual screening contractor billing rate increases of approximately \$14.7M. The increase is also attributable to higher performance program costs of \$3.9M resulting from increased screening hours and improved screening contractor performance.

The increase in screening hours purchased is mainly due to additional screening requirements to support higher passenger volumes and operational changes at certain airports. The increase is also attributable to the implementation of enhanced security measures for electronic devices that came into effect in July 2017. These increases are partially offset by reduced screening requirements resulting from the NPS Aircraft exemption that came into effect in July 2017, as well as reduced requirements for supplemental screening hours as described in the revenue section below.

## Equipment Operating and Maintenance

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

Equipment operating and maintenance costs increased by \$3.3M (8.4%) in 2018/19. The increase is driven by additional maintenance and spare parts costs of \$2.2M primarily to support existing EDS equipment coming off warranty, as well as maintenance costs associated with new EDS equipment. The increase is also attributable to additional training requirements for CATSA's maintenance service provider of \$1.2M to support the ongoing deployment of new EDS equipment at certain airport locations.

## Program Support and Corporate Services

Program support and corporate services represent the costs to support the delivery of CATSA's mandated activities and its corporate infrastructure. These costs consist mainly of employee salaries and benefits, leased space at corporate headquarters and in the regions, office and computer costs, and professional services.

Program support and corporate services costs increased by \$4.3M (5.1%) in 2018/19. The increase is primarily attributable to higher office and computer costs of \$2.8M mainly to support the life-cycle management of CATSA's IT network infrastructure, and higher employee-related costs of \$2.3M. Employee-related costs increased due to higher defined benefit plan costs resulting mainly from a decrease in the discount rate, and an increase in salary and benefit costs.

## Depreciation and Amortization

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

Depreciation and amortization increased by \$5.2M (8.8%) in 2018/19. The increase is primarily due to new deployments of CATSA Plus, changes in the estimated useful life of certain PBS equipment, and HBS equipment deployments as part of the HBS life-cycle management program. The increase is partially offset by older HBS equipment becoming fully depreciated.

## Other Expenses (Income)

Other expenses (income) consist of the loss on disposal of property and equipment, write-off of property and equipment, finance cost, foreign exchange gain or loss, and net gain on fair value of derivative financial instruments.

Other expenses (income) decreased by \$1.9M (83.9%) in 2018/19. The decrease is primarily due to a foreign exchange gain compared to a foreign exchange loss in the prior year, as well as the write-off of property and equipment, recorded in the prior year, for equipment that was retired from service as new equipment was deployed.

## Revenue

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

Revenue decreased by \$3.0M (18.9%) in 2018/19. The decrease is mainly due to the purchase of fewer supplemental screening hours, resulting primarily from the expiry of the trial agreement with YVRRA in June 2018. The decrease is also attributable to non-cash vendor credits recorded in the prior year.

## Government Funding

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

### Parliamentary Appropriations for Operating Expenses

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

Parliamentary appropriations for operating expenses increased by \$58.6M (9.1%) in 2018/19. The increase is primarily due to increased spending for screening services and other related costs, equipment operating and maintenance, and program support and corporate services, as discussed above.

### Amortization of Deferred Government Funding Related to Capital Expenditures

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

Amortization of deferred government funding related to capital expenditures increased by \$4.6M (7.6%) in 2018/19. The increase resulted from increased depreciation and amortization, partially offset by the write-off of property and equipment, recorded in the prior year, as previously discussed.

## Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of the net actuarial gains (losses) associated with CATSA's defined benefit plans. The 2018/19 net gain of \$6.8M is primarily due to a remeasurement gain of \$3.6M resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions. The net gain is also attributable to an actuarial gain of \$3.1M related to experience adjustments and changes to demographic assumptions.

In 2017/18, the net loss of \$11.6M was primarily due to a remeasurement loss of \$14.4M on the defined benefit liability arising primarily from losses on the revision of financial assumptions (mainly discount rate and rate of compensation increase). This was partially offset by a remeasurement gain of \$2.7M resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions.

For further details, please refer to the Employee Benefits section.

## Liquidity And Capital Resources

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

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

### Liquidity and Capital Resources

| (Thousands of Canadian dollars)  | March 31, 2019 | March 31, 2018 | \$ Variance |
|----------------------------------|----------------|----------------|-------------|
| Cash                             | \$ 4,007       | \$ 9,929       | \$ (5,922)  |
| Trade and other receivables      | 145,490        | 136,506        | 8,984       |
| Trade and other payables         | (129,719)      | (132,868)      | 3,149       |
| Current portion of holdbacks     | (12,433)       | (9,349)        | (3,084)     |
| Non-current portion of holdbacks | (7,767)        | (4,338)        | (3,429)     |

Cash decreased by \$5.9M primarily due to the timing of disbursements to suppliers for goods and services. Trade and other receivables increased by \$9.0M primarily due to an increase in parliamentary appropriations receivable. Trade and other payables decreased by \$3.1M as a result of the timing of disbursements associated with obligations outstanding with suppliers. Current and non-current holdbacks increased by \$3.1M and by \$3.4M, respectively, due to ongoing construction under the HBS recapitalization projects.

## Capital Expenditures

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

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

Property and equipment and intangible assets represent 73.0% of total assets as at March 31, 2019. In 2018/19, capital expenditures totalled \$111.6M. The section below provides a breakdown of the capital expenditures for EDS and non-EDS, as well as an overview of the major capital projects undertaken over the course of the fiscal year.

### Capital Expenditures

| (Thousands of Canadian dollars)   | 2018/19           | 2017/18          | \$ Variance      |
|-----------------------------------|-------------------|------------------|------------------|
| EDS                               | \$ 103,613        | \$ 73,502        | \$ 30,111        |
| Non-EDS                           | 8,003             | 2,921            | 5,082            |
| <b>Total capital expenditures</b> | <b>\$ 111,616</b> | <b>\$ 76,423</b> | <b>\$ 35,193</b> |



## EDS

- ▶ Ongoing deployment of the three-level HBS system with Computed Tomography technology at certain airports in support of the HBS Recapitalization Program; and
- ▶ Deployment of CATSA Plus checkpoints at Vancouver International Airport, Edmonton International Airport, Toronto Pearson International Airport, Montreal-Trudeau International Airport and Halifax Stanfield International Airport.

## Non-EDS

- ▶ Development of a new Restricted Access Identity Card enrollment system, as part of CATSA's life-cycle management program; and
- ▶ Life-cycle management and upgrade of various systems and equipment to support CATSA's IT network infrastructure.

## Employee Benefits

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

| Employee Benefits                      |                    |                    |                   |
|--|--------------------|--------------------|-------------------|
| (Thousands of Canadian dollars)        | March 31, 2019     | March 31, 2018     | \$ Variance       |
| Employee benefits asset                | \$ 5,728           | \$ 5,030           | \$ 698            |
| Employee benefits liability            | (30,507)           | (28,402)           | (2,105)           |
| <b>Net employee benefits liability</b> | <b>\$ (24,779)</b> | <b>\$ (23,372)</b> | <b>\$ (1,407)</b> |

As at March 31, 2019, the employee benefits asset represents the net funding position of CATSA's RPP and SRP. The employee benefits liability consists of the present value of the defined benefit liability of the ODBP.

CATSA's independent actuary determines each plan's net position as at March 31 of each year. The net position fluctuates annually due to a combination of variables, including the discount rate, inflation rate, number of plan members and their demographics, expected average rate of salary increases, expected average remaining service lifetime of active employees, returns on plan assets and contributions. Note 10 of the annual audited financial statements provides further details regarding the underlying assumptions used in determining the net position.

The increase in the asset of \$0.7M is primarily due to a remeasurement gain on CATSA's RPP and SRP of \$6.2M, partially offset by non-cash current benefit costs exceeding CATSA contributions by \$5.5M for these plans. The increase in the liability of \$2.1M is due to non-cash current benefit costs exceeding CATSA contributions by \$2.7M, partially offset by a remeasurement gain of \$0.6M on CATSA's ODBP.

## Financial Performance Against Corporate Plan

CATSA's 2018/19 – 2022/23 Corporate Plan has not been tabled for approval in Parliament at the time of publishing. Until it is tabled in Parliament and made publicly available, CATSA will not be in a position to provide an explanation of significant differences between its financial results compared to those anticipated in its *Summary of the 2018/19 – 2022/23 Corporate Plan*.

### Parliamentary Appropriations Used

#### Operating Expenditures

CATSA's operations are funded primarily by parliamentary appropriations from the Government of Canada. The table below serves to reconcile financial performance reported under IFRS and operating appropriations used on a near-cash accrual basis:

#### Reconciliation of Financial Performance to Operating Appropriations Used

| (Thousands of Canadian dollars)   | 2018/19           | 2017/18           | \$ Variance      |
|---|-------------------|-------------------|------------------|
| <b>Financial performance before revenue and government funding</b>                  | <b>\$ 789,836</b> | \$ 727,325        | \$ 62,511        |
| <b>Revenue</b>  | <b>(12,714)</b>   | (15,669)          | 2,955            |
| <b>Financial performance before government funding</b>                              | <b>777,122</b>    | <b>711,656</b>    | <b>65,466</b>    |
| <b>Non-cash expenses</b>  |                   |                   |                  |
| Depreciation and amortization   | <b>(64,151)</b>   | (58,948)          | (5,203)          |
| Employee benefits expense <sup>1</sup>  | <b>(8,167)</b>    | (6,489)           | (1,678)          |
| Loss on disposal of property and equipment  | <b>(611)</b>      | (518)             | (93)             |
| Write-off of property and equipment   | <b>(528)</b>      | (1,097)           | 569              |
| Spare parts expense funded from capital <sup>2</sup>                                | <b>(18)</b>       | (57)              | 39               |
| Change in fair value of financial instruments at fair value through profit and loss | <b>153</b>        | 53                | 100              |
| Non-cash gain (loss) on foreign exchange recognized in financial performance        | <b>148</b>        | (140)             | 288              |
| Deferred lease incentives recognized in financial performance <sup>3</sup>          | <b>101</b>        | 246               | (145)            |
| Non-cash vendor credits   | <b>–</b>          | 792               | (792)            |
| <b>Parliamentary appropriations for operating expenses</b>                          | <b>\$ 704,049</b> | <b>\$ 645,498</b> | <b>\$ 58,551</b> |
| <b>Other items affecting funding</b>  |                   |                   |                  |
| Net change in prepaid expenses and inventories <sup>4</sup>                         | <b>(976)</b>      | 809               | (1,785)          |
| <b>Total operating appropriations used</b>  | <b>\$ 703,073</b> | <b>\$ 646,307</b> | <b>\$ 56,766</b> |

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

<sup>2</sup> Spare parts expense funded from capital represents items that were funded from capital appropriations in prior years but were used as spare parts and expensed during the current year, creating a reconciling item.

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

<sup>4</sup> Prepaid expenses 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.

## Capital Expenditures

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

### Reconciliation of Capital Acquisitions to Capital Appropriations Used

| (Thousands of Canadian dollars)   | 2018/19           | 2017/18          | \$ Variance      |
|---|-------------------|------------------|------------------|
| EDS   | \$ 103,613        | \$ 73,502        | \$ 30,111        |
| Non-EDS   | 8,003             | 2,921            | 5,082            |
| <b>Total capital asset acquisitions</b>                                 | <b>\$ 111,616</b> | <b>\$ 76,423</b> | <b>\$ 35,193</b> |
| Proceeds on disposal of property and equipment                          | (172)             | (59)             | (113)            |
| Non-cash additions to leasehold improvements                            | (141)             | –                | (141)            |
| Non-cash adjustment on foreign exchange related to capital acquisitions | (450)             | 20               | (470)            |
| Non-cash additions resulting from vendor credits                        | –                 | (792)            | 792              |
| <b>Total capital appropriations used</b>                                | <b>\$ 110,853</b> | <b>\$ 75,592</b> | <b>\$ 35,261</b> |

# 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



## 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*.

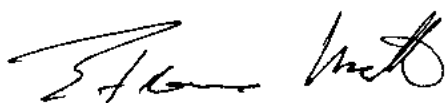
In our opinion, the transactions of the Canadian Air Transport Security Authority that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, 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              |
| <b>Assets</b>  |                   |                   |
| 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           |
| <b>Total assets</b>  | <b>\$ 645,559</b> | <b>\$ 596,486</b> |
| <b>Liabilities and Equity</b>  |                   |                   |
| 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)          |
| <b>Total liabilities and equity</b>                                  | <b>\$ 645,559</b> | <b>\$ 596,486</b> |

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

Approved by the Board and authorized for issue on June 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        |
| <b>Expenses</b>  |                      |             |
| 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     |
| <b>Other expenses (income)</b>   |                      |             |
| 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     |
| <b>Revenue</b>   |                      |             |
| Supplemental screening services  | 11,726               | 13,924      |
| Finance income   | 979                  | 638         |
| Miscellaneous income   | 9                    | 852         |
| Rental income  | –                    | 255         |
| Total revenue  | 12,714               | 15,669      |
| <b>Government funding</b>  |                      |             |
| 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     |
| <b>Financial performance</b>   | \$ (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 |
|---|---------------------|
| <b>Balance, March 31, 2017</b>                              | \$ (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 |
|---|---------------------|
| <b>Balance, March 31, 2018</b>                              | \$ (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       |
| <b>Cash flows provided by (used in)</b>  |                      |            |
| <b>Operating activities</b>  |                      |            |
| 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)   |
| <b>Investing activities</b>  |                      |            |
| 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.

# Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

## 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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

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.

# Notes to the Financial Statements

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

## 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.



## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

► 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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)  
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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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

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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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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.



## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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.

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(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### 4. Trade and other receivables

Trade and other receivables are comprised of:

|                                 | March 31,<br>2019 | March 31,<br>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,<br>2019 | March 31,<br>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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)  
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### 6. Property and equipment

A reconciliation of property and equipment is as follows:

|                                 | PBS<br>equipment | HBS<br>equipment | NPS<br>equipment | RAIC<br>equipment | Computers,<br>integrated<br>software and<br>electronic<br>equipment | Office<br>furniture and<br>equipment | Leasehold<br>improve-<br>ments | Work-in-<br>progress | Total        |
|---------------------------------|------------------|------------------|------------------|-------------------|---|--------------------------------------|--------------------------------|----------------------|--------------|
| <b>Cost</b>                     |                  |                  |                  |                   |   |                                      |                                |                      |              |
| 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 |
| <b>Accumulated depreciation</b> |                  |                  |                  |                   |   |                                      |                                |                      |              |
| 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   |
| <b>Carrying amounts</b>         |                  |                  |                  |                   |   |                                      |                                |                      |              |
| 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   |

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

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.



## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### 7. Intangible assets

A reconciliation of intangible assets is as follows:

|                                 | Externally<br>acquired<br>software | Internally<br>developed<br>software | Under<br>development | Total     |
|---------------------------------|------------------------------------|-------------------------------------|----------------------|-----------|
| <b>Cost</b>                     |                                    |                                     |                      |           |
| 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 |
| <b>Accumulated amortization</b> |                                    |                                     |                      |           |
| 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 |
| <b>Carrying amounts</b>         |                                    |                                     |                      |           |
| 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.

# Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

## 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).

# Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

## 9. Deferred government funding

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

|  | March 31,<br>2019 | March 31,<br>2018 |
|--|-------------------|-------------------|
| <b>Deferred government funding related to operating expenses</b>                     |                   |                   |
| 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         |
| <b>Deferred government funding related to capital expenditures</b>                   |                   |                   |
| 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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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        |
| <b>Fair value of plan assets</b>                                |            |            |          |          |             |             |
| Balance, beginning of year                                      | \$ 195,976 | \$ 183,250 | \$ 6,639 | \$ 6,420 | \$ –        | \$ –        |
| <i>Included in financial performance</i>                        |            |            |          |          |             |             |
| Interest income   | 6,913      | 6,906      | 232      | 241      | –           | –           |
| Administration costs  | (250)      | (250)      | (15)     | (15)     | –           | –           |
| <i>Included in other comprehensive income (loss)</i>            |            |            |          |          |             |             |
| Remeasurement gain  |            |            |          |          |             |             |
| Return on assets excluding interest income                      | 3,604      | 2,694      | 20       | 31       | –           | –           |
| <i>Other</i>  |            |            |          |          |             |             |
| 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 | \$ –        | \$ –        |
| <b>Present value of defined benefit liabilities</b>             |            |            |          |          |             |             |
| Balance, beginning of year                                      | \$ 192,630 | \$ 166,630 | \$ 4,955 | \$ 3,998 | \$ 28,402   | \$ 24,292   |
| <i>Included in financial performance</i>                        |            |            |          |          |             |             |
| Current service cost  | 8,974      | 8,197      | 70       | 69       | 1,849       | 1,646       |
| Interest expense  | 7,101      | 6,579      | 176      | 152      | 1,055       | 969         |
| <i>Included in other comprehensive income (loss)</i>            |            |            |          |          |             |             |
| 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      | –           | –           |
| <i>Other</i>  |            |            |          |          |             |             |
| 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) |

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

|  | March 31,<br>2019 | March 31,<br>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        |
| <b>Defined benefit cost (income) recognized in financial performance</b>                      |          |            |        |          |          |            |           |             |
| 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   |
| <b>Remeasurement of defined benefit plans recognized in other comprehensive income (loss)</b> |          |            |        |          |          |            |           |             |
| 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).

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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              |
| <i>Investment funds</i>                             |                   |                   |                 |                 |                   |                   |
| 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             |
| <i>Canada Revenue Agency refundable tax account</i> | –                 | –                 | 3,036           | 2,941           | 3,036             | 2,941             |
| <i>Cash and cash equivalents</i>                    | 259               | –                 | –               | –               | 259               | –                 |
| <b>Total plan assets, end of year</b>               | <b>\$ 207,254</b> | <b>\$ 195,976</b> | <b>\$ 6,842</b> | <b>\$ 6,639</b> | <b>\$ 214,096</b> | <b>\$ 202,615</b> |

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

On a regular basis, an asset-liability 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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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  |
| <i>Present value of defined benefit liability</i> |       |       |       |       |       |       |
| 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 <sup>1</sup>                      | CPM-B | CPM-B | CPM-B | CPM-B | CPM-B | CPM-B |
| <i>Benefit costs</i>                              |       |       |       |       |       |       |
| 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% |
| <i>Assumed medical cost trend rates</i>           |       |       |       |       |       |       |
| Initial medical cost trend rate                   |       |       |       |       | 6.00% | 6.25% |
| Ultimate medical cost trend rate                  |       |       |       |       | 4.50% | 4.50% |
| Year ultimate reached                             |       |       |       |       | 2025  | 2025  |

<sup>1</sup> 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.



## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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 |

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### 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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### 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 <sup>1</sup> | (26,118)   | (36,038)   |
| Unused portion of parliamentary appropriations              | (5,992)    | (1,530)    |
| Total parliamentary appropriations used                     | \$ 813,926 | \$ 721,899 |

<sup>1</sup> 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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

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 <sup>1</sup>         | \$ 537          | \$ 537               | \$ 384          | \$ 384               |
| Financial instruments measured at amortized cost |                 |                      |                 |                      |
| Non-current holdbacks <sup>2</sup>               | \$ 7,767        | \$ 7,767             | \$ 4,338        | \$ 4,338             |

<sup>1</sup> The fair value is based on a discounted cash flow model based on observable inputs.

<sup>2</sup> 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).

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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<br>3 months | 3 months<br>to 1 year | Greater<br>than 1 year | Total at<br>March 31, 2019 |
|--------------------------|-----------------------|-----------------------|------------------------|----------------------------|
| Trade and other payables | \$ 113,668            | \$ 16,051             | \$ –                   | \$ 129,719                 |
| Holdbacks                | 11,584                | 849                   | 7,767                  | 20,200                     |
|                          | Less than<br>3 months | 3 months<br>to 1 year | Greater<br>than 1 year | Total at<br>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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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 <sup>1</sup> | \$ 28,206      | \$ 28,743  | \$ 42,018      | \$ 42,402  |

<sup>1</sup> 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.

## Notes to the Financial Statements

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

### 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,<br>2019 | March 31,<br>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,<br>2019 | March 31,<br>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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### 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,<br>2019 | March 31,<br>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.



## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### (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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2019

### 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

|  |  |
|--|--|
| <b>BPSS</b>                            | 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.  |
| <b>Canada's eight busiest airports</b> | 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).   |
| <b>Canada's 28 major airports</b>      | 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. |
| <b>Class I airports</b>                | Refers to the airports listed under Schedule 1 of the <i>Canadian Aviation Security Regulations, 2012</i> . These airports have an annual passenger traffic in excess of 1 million people, or have a high threat/risk potential.   |
| <b>Class II airports</b>               | Refers to the airports listed under Schedule 2 of the <i>Canadian Aviation Security Regulations, 2012</i> . These airports have one or more of the following characteristics: <ul style="list-style-type: none"> <li>• annual passenger traffic in excess of 200,000 people;</li> <li>• a medium threat/risk potential;</li> <li>• primary airport of provincial/territorial capital; or</li> <li>• a transit stop for international flights bound for Class I or II airports.</li> </ul>  |
| <b>Class III airports</b>              | Refers to the airports listed under Schedule 3 of the <i>Canadian Aviation Security Regulations, 2012</i> . These airports have scheduled commercial operations, but with a lower traffic volume and lower level of risk than the other classes of airports.   |
| <b>ETD</b>                             | Explosive Trace Detection.   |
| <b>HHMD</b>                            | Hand Held Metal Detector.  |
| <b>ICAO</b>                            | 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.  |
| <b>IFRS</b>                            | International Financial Reporting Standards.   |
| <b>SOPs</b>                            | Standard Operating Procedures: instructions to screening officers on how to perform screening in accordance with Transport Canada's Security Screening Measures.   |
| <b>Trusted Travellers</b>              | 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.  |
| <b>WTMD</b>                            | Walk Through Metal Detector.   |