



Annual Report

2011–2012



Passport Canada
Passeport Canada

Canada

Table of Contents

Message from the Chief Executive Officer	1
1 Passport Canada Overview	2
1.1 Raison d'être	2
1.2 About Passport Canada	2
1.3 Strategic Outcomes	3
1.4 Summary of Organizational Priorities for 2011–2012	4
1.5 Passport Program Performance	5
1.6 Financial Summary	7
2 Accomplishments	9
2.1 Excellence in Global Service Delivery	9
2.2 Strengthening Security	12
2.3 Enhancement of Management Practices	13
3 Positioning for the Future	16
3.1 The Challenges and Opportunities Ahead	16
3.2 Summary of Priorities for 2012–2013	17
4 Supplementary Information	18
4.1 Products	18
4.2 Trends	19
Annexes	21
Annex A – Agency Bureaus	21
Annex B – Financial Statements	23

Passport Canada Annual Report 2011–2012

Message from the Chief Executive Officer

I am delighted to present this year's annual report highlighting the work undertaken by the organization to deliver Canada's passport program for fiscal year 2011–2012. During this period of strong fiscal restraint, the Passport Canada team continues to demonstrate a high level of commitment to our mission while continuing to meet our client service standards. In 2011–2012, we issued almost 9% more passports to Canadians than the previous year, with 99% of applications processed on time or earlier. This strong service performance was maintained despite a record volume of applications received in January and February, and a 23-day strike at Canada Post.



Since the implementation of the Western Hemisphere Travel Initiative (WHTI) for air travel in 2007, and the corresponding increase in demand for passports by Canadians, Passport Canada has taken steps to build capacity and become a nimble organization able to deal with spikes in client demand. This year, our preparedness was proven, and acknowledged by the media, during our busiest season and while coping with the nation-wide postal strike. The organization's activities and accomplishments for 2011–2012 reflect our shift in priorities from capacity building to adopting new ways of doing business, strengthening security, improving service, and modernizing our travel documents.

The accomplishments outlined in this report demonstrate a number of modernized business processes and practices that were implemented by Passport Canada. They resulted in improved service for Canadians in Canada and abroad as well as improved identity verification and entitlement capabilities. The important work performed this year on the *User Fees Act* process at Passport Canada and the development of an electronic passport (ePassport) made strides in modernizing Canada's travel document products. I invite you to read all about this year's accomplishments in the following pages.

In all its program activities, Passport Canada strives to strike the best possible balance between service, security, and operating efficiency. While it works hard to ensure that Canadians receive timely, helpful and convenient service, security cannot be compromised. As we move forward, the Passport Canada team remains dedicated to ensuring that all Canadian passport holders (67% of Canadians) receive innovative, reliable, efficient, accessible and secure passport services that deliver a trusted travel document that provides visa-free access to most of the world's destinations.

Christine Desloges
Chief Executive Officer
Passport Canada



1 Passport Canada Overview

1.1 Raison d'être

Passport Canada was established in 1990 as a special operating agency (SOA) of the Department of Foreign Affairs and International Trade (DFAIT). Reporting to Parliament through the Minister of Foreign Affairs, the organization's responsibilities are set out in the *Canadian Passport Order*. The Order stipulates how passports shall be issued, to which persons, and the role of Passport Canada.

1.2 About Passport Canada

Passport Canada's mandate flows from the *Canadian Passport Order*, which makes it responsible for issuing or refusing to issue, revoking, withholding, recovering and providing instructions on the use of Canadian passports.

Passport Canada's main business is issuing secure travel documents to Canadians, thereby facilitating travel and contributing to international and domestic security. In conducting this business, it is guided by its:

- **Mission** to issue secure Canadian travel documents through authentication of identity and entitlement, facilitating travel and contributing to international and domestic security;
- **Vision** to achieve global service, global security and global standards in providing state-of-the-art identity authentication and travel documents for the benefit of Canadians; and
- **Core Values** of excellence, respect, and integrity, which apply to all aspects of its operations in carrying out its mandate.

Funding model

Passport Canada receives no funding through parliamentary appropriations for its operating expenses. The Passport Canada Revolving Fund supports the management and delivery of the passport program. Moneys in this fund are the sum total of the revenues generated from the fees charged for travel documents issued by Passport Canada. Thus, the organization must deliver the passport program on a full cost-recovery basis.

A revolving fund is a non-lapsing statutory authorization to spend money for specific purposes, up to a limit called a "drawdown authority". Any revenues received for the specified purposes of the fund may be offset against expenditures related to these purposes. It functions much like a bank account with a line of credit or overdraft limit set at the level of the drawdown authority.



Organizational Structure

Passport Canada has eight bureaus, each with distinct responsibilities for key aspects of the organization's mandate or for internal enabling functions. Through Passport Canada's planning process and under the direction of its Chief Executive Officer, each bureau is accountable for specific program activities, service outputs, and achievement of outcomes, and for leading associated strategic investments and/or strategic project initiatives. Program activities in each of the areas of passport services, passport program integrity, and internal services are delivered and administered through the bureaus. They are:

- Service management: Operations Bureau;
- Entitlement integrity and adjudication: Security Bureau; and
- Bureaus accountable for internal services:
 - Business Information Technology Bureau;
 - Corporate Services Bureau;
 - Enterprise Alignment and Innovation Bureau;
 - Human Resources Bureau;
 - Legislation and International Relations Bureau; and
 - Policy, Communications and Research Bureau.

For more information on the day-to-day responsibilities of each bureau, please see [Annex A](#).

Passport Canada's main governance body is the Executive Committee, which plays a key role enabling internal coherence, corporate discipline, and the alignment of activities to outcomes. It also provides strategic direction, support to the Minister of Foreign Affairs, Parliament and Government of Canada priorities, and oversees the delivery of results. The Executive Committee is supported by three standing committees: the Internal Services Committee, the External Services Committee, and the Policy and Planning Committee.

1.3 Strategic Outcomes

Passport Canada uses an integrated planning framework comprised of strategic themes and outcomes to guide priority setting and executive-level decision making. This framework was designed to remain relatively stable year-over-year despite changes in the operating environment and inclusive of the entire business. Over the reporting year, Passport Canada focused its program activities and delivery operations under three strategic themes in this framework to deliver its main strategic outcome, as set out in Figure 1.



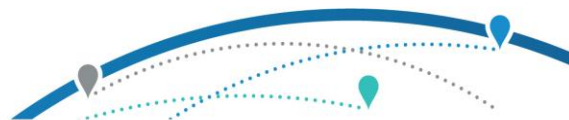
Figure 1: Passport Program Activities and Outcomes

Strategic Theme	Related Passport Program Activities
Excellence in global service delivery —ensuring that Canadians receive reliable and consistent service	Service management , including: <ul style="list-style-type: none"> • Client enquiries • Application validation • Identity and citizenship confirmation • Entitlement decisions • Travel document production and delivery
Strengthening security —improving identity verification and entitlement capabilities to enable more secure travel documents	Entitlement integrity and adjudication , including: <ul style="list-style-type: none"> • Integrity and case management • Investigations • Intelligence • Review of investigative process/findings • Making refusal/revocation decisions • Determining appropriate sanctions
Enhancement of management practices —using modern management practices to anticipate and respond to future needs, including capabilities for strategic alignment, innovation and decision making	Management and internal services that direct and enable excellence in program delivery and effective and efficient operations, including: <ul style="list-style-type: none"> • Management, policy, oversight, communications and legal services • Administrative services supporting resource management in HR, finance, information management and IT • Asset management services, including real property, materiel and acquisitions
Benefit Outcomes	
<ul style="list-style-type: none"> • Increased ability for Canadian travellers to gain entry to other countries using authorized travel documents • Decreased incidence of fraudulent use of Canadian travel documents • Decreased incidence of valid Canadian travel documents held by ineligible parties 	
Direct Strategic Outcome	
Canadians receive innovative, reliable, efficient, accessible and secure passport services.	

1.4 Summary of Organizational Priorities for 2011–2012

For the 2011–2012 reporting year, Passport Canada established five planning priorities. Informed by the passport program’s strategic themes and outcomes, they were selected to ensure that the organization would:

- Be well positioned for anticipated business volumes over the year while continuing to deliver excellent service as efficiently as possible, demonstrating exemplary management of financial and human resources;
- Contribute to strengthening border management and security; and
- Remain on track to meet key commitments for major program transformations, including preparations for the introduction of the new ePassport in 2013.



The priorities were:

1. **Service Delivery**—to improve service to Canadians in Canada and abroad by focusing on core business, modernizing business practices, and anticipating current and future program needs with a view to both economy and effectiveness;
2. **Security and Integrity**—to strengthen the security of entitlement and issuance processes through improved identity verification and entitlement capabilities;
3. **Strategic Investments**—to support program priorities through the delivery of key project investments, including for consultations under the *User Fees Act* in advance of the introduction of the ePassport, solution design for the ePassport, facility leasehold projects, and IT lifecycle management projects;
4. **People management**—to continue building an engaged workforce with a supportive workplace and learning environment aimed at renewed capacity building, competency profiles and innovation; and
5. **Internal services**—to enable the effective and efficient delivery of the passport program, including the modernization of application processing, strengthening of security functions, and provision of excellent services to Canadians.

Each Passport Canada bureau had plans in place to support the five cross-organizational planning priorities, containing commitments to support the priorities and align their activities to Passport Canada's overall business strategy.

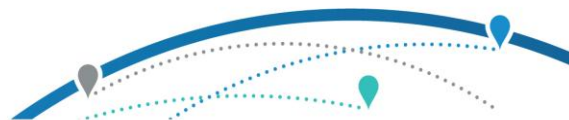
Coordination at the Executive Committee level ensured that all planned activities across the organization were mutually reinforcing, appropriately timed, and coherent. In this way, specific commitments for core activities and operational improvements for each priority were well defined and clearly linked to a bureau or office of primary interest (OPI) responsible for their implementation, and to the strategic themes and outcomes of the passport program.

1.5 Passport Program Performance

Passport Canada issued over 4.8 million travel documents in 2011–2012. This represents an increase of 8.71% over the previous year. A record number of applications were received during the months of January and February 2012, with well over one million applications received—and a national daily production average of about 24,500. This volume was a reflection of the fifth anniversary of the WHTI, as all those who had applied for passports in 2007 were up for renewal.

Western Hemisphere Travel Initiative

The Western Hemisphere Travel Initiative, or WHTI, is a US law that requires all travellers, including US and Canadian citizens, to present a valid passport or other approved secure document when entering the United States by land, water or air from within the western hemisphere.



Service Commitments to Canadians

Passport Canada maintained strong service delivery performance in 2011-2012, despite the significant increase in business volumes and a 23-day strike at Canada Post. The organization exceeded its service standard with over 99% of clients receiving their passport on time or earlier.

Service Channels for Canadians

Canadians continued to exhibit a strong preference for in-person service. Passport Canada accepts passport applications from Canadians in person at Passport Canada offices, through receiving agents (Service Canada and Canada Post), by mail, through their MP and through a vast network of Government of Canada offices abroad. As shown in Figure 2, the percentage of applications received through each channel has remained consistent over the past two years, with most clients (71.8%) choosing to submit their application in person.

Passport Canada's Service Commitments to Canadians

- To process applications submitted in person at Passport Canada offices within 10 business days
- To process applications received through a receiving agent (Service Canada or Canada Post) or by mail from Canada or the US within 20 business days

Figure 2: Applications Received by Channel

Channel	Percentage of Applications Received 2010–2011	Percentage of Applications Received 2011–2012
Walk-in	72.2%	71.8%
Mail in (Canada)	9.9%	10.4%
Receiving Agent	9.5%	10.5%
Consular	3.7%	3.5%
Member of Parliament (MP)	2.5%	1.9%
Mail in (US)	1.8%	1.4%
Certificate of Identity/Official Travel	0.4%	0.5%
TOTAL	100%	100%

Service Access for Canadians

Passport Canada continued to offer over 95% of Canadians a passport point-of-service within 100 km of their residence. Given the strong preference Canadians have for in-person passport services, Passport Canada makes it a key priority to offer and maintain physical proximity to its services.

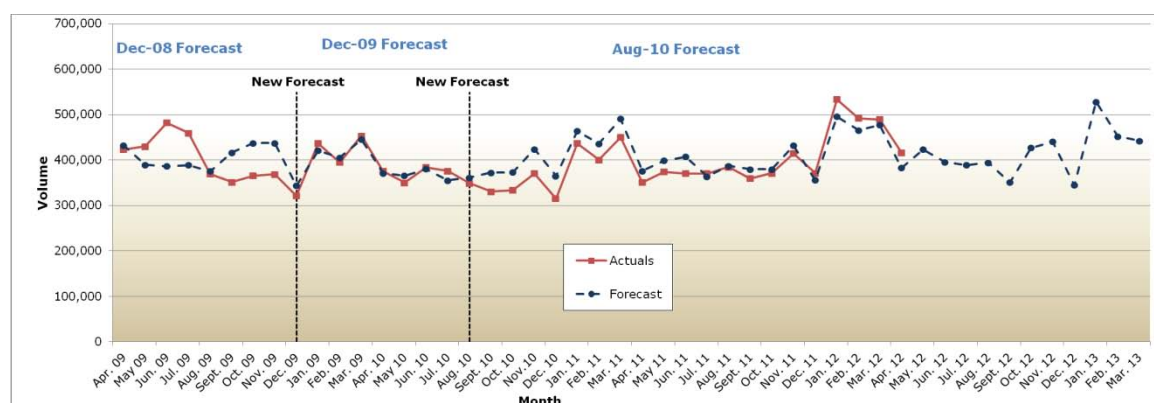
Forecasting Demand for Services

Passport Canada's forecast model continued to play a key role in helping the organization manage its resources as efficiently as possible to maintain service levels through fluctuations in demand for passport services. The model predicts business volume within a range of probability. As set out in Figure 3, the upper and lower limits of the forecast appear as dotted lines. The forecast is the black line and the actual number of applications received is the red line. Throughout most of 2011–2012, forecast and actual demand tracked closely; however, in the first quarter, actual demand was slightly below



forecast, and in the fourth quarter actual demand spiked higher, though both were within the model's range of probability.

Figure 3: Passport Canada Forecast vs. Actual Demand



1.6 Financial Summary

Passport Canada finances its operations entirely from the fees charged for passports and other travel documents. This makes the organization self-funding, which means it must generate sufficient revenues, over time, to meet expenditures. Although there is no annual parliamentary appropriation for its operating expenses, the federal government may, on occasion, provide one-time financial support for special projects designed to improve service or enhance the security of Canadian travel documents.

Passport Canada's operating deficit was significantly lower in 2011–2012 than the year before. As shown in Figure 4, in fiscal year 2011–2012, the organization incurred an operating deficit of \$14.9 million, \$33 million less than the anticipated deficit for the year and \$6.2 million less than the \$21.1 million deficit recorded for fiscal year 2010–2011. The lower deficit is mainly attributable to an increase in revenues. Passport Canada's actual revenues of \$293.6 million for 2011–2012 were \$12.8 million above anticipated revenues, and \$24.1 million more than revenues collected in fiscal year 2010–2011. This is the result of a significant increase in demand for passports, including a sharp spike in renewals early in 2012, around the time of the fifth anniversary of the Western Hemisphere Travel Initiative. As revenues were surpassed by expenses, the deficit for this fiscal year was absorbed by previously accumulated surplus. Passport Canada financial statements for 2011–2012 may be found in [Annex B](#).

Figure 4: Passport Canada Revenues and Expenses

	2010–2011 Actual	2011–2012 Anticipated	2011–2012 Actual
Revenues	269.5	280.8	293.6
Expenses	290.6	328.7	308.5
Difference	(21.1)	(47.9)	(14.9)



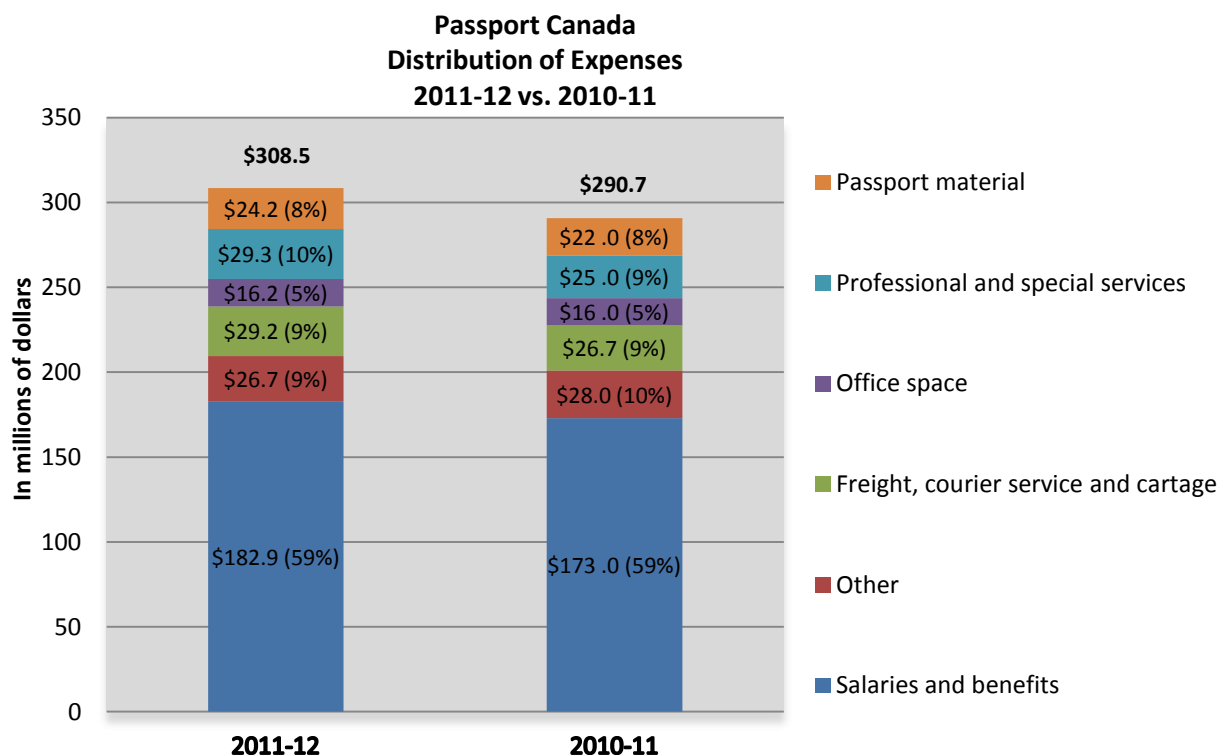
Passport Canada's structural deficit is mainly attributable to a fee structure that was last amended in 2001. However, other factors include fixed costs associated with maintaining the current infrastructure that supports program delivery; the growing complexity of the business; the gradual implementation and roll-out of the ePassport project; and the need to modernize the organizational infrastructure. The introduction of a new fee structure in 2013–2014, coinciding with the implementation of the 10-year ePassport, will result in positive changes to Passport Canada's financial position.

Passport Canada Expenses

Passport Canada plans and manages resources based on volumes and client service needs. However, a significant portion of costs cannot be rapidly adjusted to passport volume fluctuations. For example, the staff complement to maintain sufficient operational capacity to deliver passports and to ensure compliance with government policies and regulations; rental of buildings; maintaining the processes and technology needed for operations and to meet security standards; and the implementation of priorities such as the ePassport and *User Fees Act* consultations tend to be fixed costs that cannot be easily adjusted when business volume decreases.

Figure 5 shows changes in major expenditure categories over the last two fiscal years. Year after year, the largest budget item, salaries and wages, represents about 59% of the organization's total operating costs. To achieve its performance objectives and maintain its high level of service, Passport Canada relies on a dedicated and well-trained workforce.

Figure 5: Distribution of Expenses



2 Accomplishments

Over the course of the reporting year, all key commitments in Passport Canada's 2011–2012 Corporate Business Plan were met. This section presents the organization's 2011–2012 accomplishments in achieving excellence in global service delivery, strengthening security, and enhancing management practices.

2.1 Excellence in Global Service Delivery

Despite two significant production challenges in 2011–2012 listed below, Passport Canada exceeded its service commitment to process 95% of applications on time. In fact, it processed 99% of applications on time or earlier.

- **Strike at Canada Post:** In the first quarter of the reporting year, thanks to good planning and the flexibility of its print production and delivery infrastructure, Passport Canada successfully weathered the 23-day strike at Canada Post. The organization ramped up its local printing capacity from 20% to 55% of all volume, and diverted the delivery of more than 200,000 passports to an alternate courier. Fewer than 30 passports were stuck in the mail at the time of the walk-out.
- **Fifth anniversary of the Western Hemisphere Travel Initiative (WHTI):** The final quarter of 2011–2012 saw an unprecedented rise in application volumes, largely renewals, coinciding with the fifth anniversary of the WHTI requiring Canadians to have a passport to enter the US. January and February of 2012 were the busiest months in the organization's history. More than one million passport applications were received, for a daily average of about 24,500 applications. Staff handled the volume increase with professionalism and spirited teamwork. They went the extra mile to maintain our service commitment to Canadians.

While maintaining its focus on strong day-to-day service delivery, Passport Canada also took steps to improve service to Canadians in Canada and abroad. These accomplishments flow from efforts to modernize business practices and to anticipate current and future program needs, with a view to both economy and effectiveness. We did this by:

- **Expanding our utilization of social media.** With the groundwork already in place, 2011–2012 was a year of growth in social media at Passport Canada. We solidified our social media presence, and demonstrated the usefulness and flexibility of these tools. In 2011–2012, Passport Canada launched a “weekly tip” initiative. Once a week, useful tips are posted on our website, on Facebook and on Twitter. These tips deal with a wide variety of topics, including application procedures, what to do in case of emergency, service locations, ePassport awareness, passports for children and much more. We also further developed our YouTube channel. This low-cost communications channel has proven to be an excellent vehicle for explaining in a visual, easy-to-digest manner key aspects of Canada's passport program. As of late June 2012, the total number of views of all the videos on Passport Canada's YouTube channel, in both official languages, was well over 56,000.



- **Relocating three regional offices to shopping malls.** Following its facilities strategic model, Passport Canada relocated regional offices in Ottawa and London, Ontario, and Pointe-Claire, Quebec, to shopping centres. This saves on leasing costs and strategically improves service access in a pedestrian-oriented shopping centre with free parking and greater access to public transit.
- **Improving services to Canadians living abroad.** The simplified renewal application process was successfully piloted in London, Dublin and Hong Kong—the Government of Canada offices abroad with the largest passport volumes. Since the fall of 2011, more than half of Canadian adult passport applications received at these three locations overseas have been processed using the simplified renewal process. Unlike the application process for first-time applicants which requires proof of citizenship, supplementary identification, and the signature of a guarantor with a Canadian passport, simplified renewal uses a shorter form and requires applicants to submit only their current or recently expired Canadian passport and two recent photos. The pilot confirmed that the highly secure technological interface between the passport issuing system abroad and Passport Canada's facial recognition data base can be used to confirm the identity of renewal applicants. This pilot is an important step forward towards eventually offering simplified renewals to eligible Canadians at all Government of Canada offices abroad.
- **Developing an international crisis response plan so that Passport Canada is prepared to provide timely and appropriate passport services to Canadians in emergency situations abroad.** The plan ensures that Passport Canada will have the personnel and resources readily available to assist in the issuance of travel documents to Canadian citizens being repatriated in crisis situations.
- **Hosting the Five Nations conference in Halifax in 2011.** This event brings together delegates from the passport issuing agencies of Australia, New Zealand, the United Kingdom, the United States, and Canada. Passport Canada is the only member of the Five Nations that operates as a full cost-recovery passport program and our international colleagues are keen to learn about how we operate so efficiently.
- **Being recognized in the Government of Canada's Red Tape Reduction Commission recommendations report released in January 2012.** The forthcoming introduction of the 10-year ePassport and our simplified renewal application process were both recognized as measures that reduce the administrative burden and paperwork associated with applying for a passport.
- **Expanding the LEAN process improvement methodology to quality control and mail-out processes at our print centres.** The LEAN methodology focuses on re-engineering business processes to eliminate inefficiencies and remove waste in order to improve quality and reduce production times and costs.
- **Redesigning the de Varennes central processing facility to improve operating efficiency.** Following consultations with employees, the redesign was developed to give managers more accountability for the processing of files and to foster a sense of team ownership. It also streamlined the facility's workforce and reduced by eight the number of full-time positions.

- **Implementing a call-centre scheduling tool to improve productivity.** The tool leverages forecasting and trend data to assist with the scheduling of staff to more accurately match call centre business volumes. It ensures that sufficient staff is available to manage incoming call volumes during peak periods.

Passport Canada continues to modernize the passport program. Key accomplishments in 2011–2012 include:

- **Successfully completing consultations concerning the development of a new fee structure.** A key milestone in the process mandated under the *User Fees Act* occurred in November 2011 with the publication of Passport Canada's fee-for-service proposal. Pursuant to requirements under the Act, Passport Canada received thoughtful and constructive input from over 7,000 Canadians on passport program services a year earlier in 2010. Consequently, we were able to reflect the priorities and expectations of Canadians in the fee proposal. Following publication of the proposal, of the 7,500 people who had visited our consultations webpage to review it, only 56 submitted written feed-back of which only half expressed specific objections to the fee change. Passport Canada responded to all input received ahead of schedule, by December 16, 2011, and was able to address all complaints satisfactorily. Under the *User Fees Act*, Canadians can lodge requests for independent advisory panels if dissatisfied with explanations provided concerning changes to fees. None were received.
- **Successfully tabling Passport Canada's fee proposal in Parliament.** Near the close of the reporting year, on March 29, 2012, the Minister of Foreign Affairs tabled the fee proposal in Parliament. It was subsequently examined and approved with no changes by two Parliamentary committees: the House of Commons Committee on Foreign Affairs and International Development, and the Senate Committee on Foreign Affairs and International Trade. The new fees are the lowest possible to support the introduction of the new 10-year ePassport in 2013 and allow Passport Canada to keep pace with technological advancements, strengthen security standards as threats change, and continue to provide excellent service to Canadians. Indeed, Canadians will be paying less per year of validity for a 10-year ePassport than they currently do for the 5-year non-electronic passport. Information on [Passport Canada's new proposed fees](#) is available on our website.
- **Completing the planning phase and entering the execution phase of the ePassport solution.** The project team is preparing for national implementation and has started building and testing the solution to integrate into its systems. The ePassport project involves transitioning the current production model, reengineering the production processes, and upgrading or replacing various pieces of production technology. Following a rigorous competitive process, the ePassport contract was awarded to Canadian Bank Note (CBN) on June 28, 2011. Subsequently, designs for both the digital security of the chip and printing components of the ePassport were finalized and approved. This paves the way for implementation, which will proceed in phases to ensure an orderly transition, enabling Passport Canada to dispose of the current inventory of passport books and consumables and reducing risks as each phase will benefit from lessons learned during the previous one. Full deployment, along with the introduction of the new fee structure, is scheduled for spring 2013.



2.2 Strengthening Security

The passport program is a key element in Canada's security infrastructure. It is an active contributor to a dynamic, nimble, and responsive security posture, and plays a key role in addressing security threats. Maintaining the integrity of the Canadian passport is a mission critical function for Passport Canada involving authentication of identity, determination of eligibility for entitlement, security policies and procedures, passport security features, biometrics, and security checks and investigations.

Making Canada's travel documents as secure as possible is an ongoing task that requires constant attention to improving processes, tools and technologies to keep pace with new and emerging threats. Over the course of the reporting year, key accomplishments in strengthening the security of entitlement and issuance processes through improved identity verification and entitlement capabilities include:

- **Working with Citizenship and Immigration Canada (CIC) to develop and launch a new and secure electronic process to validate new format certificates of citizenship.** While secure citizenship cards are still valid as proof of citizenship, they are no longer being issued by CIC and have been replaced by a citizenship certificate—a letter-sized document with no photograph. The change called for modifications to the issuance system and a secure link with CIC. Passport Canada officers can now log on to a secure CIC website to electronically validate the new certificates.
- **Creating a Children's Task Force to strengthen our capacity to address the risks associated with issuing passports for children.** Issuing travel documents for children is particularly demanding due to the risk of child abduction associated with, for example, illegal adoptions or parental custody disputes. The task force proposes policies and procedures surrounding children's issues. It collaborates with identity document issuing authorities, law enforcement partners, and other government agencies, to develop tools and processes that protect the interests of children.
- **Expanding the quality assurance program to 12 Passport Canada offices to maintain effective entitlement decision making.** This program provides for regular independent reviews of sample files while they are being processed, prior to passport issuance. This helps confirm that key entitlement decisions are being made correctly and ensures that policy is being respected and performance standards are being met. They are an important way in which Passport Canada promotes continuous improvement and maintains the vigilance of staff involved in entitlement decisions. The program will be fully implemented across the organization in 2012–2013.
- **Evaluating a "decision centre" concept to strengthen entitlement and streamline the application process at Government of Canada offices abroad.** Decision centres located in the Victoria and Brampton offices are staffed by Passport Canada entitlement experts. They review and ensure the data integrity of passport applications accepted overseas and provide an entitlement decision based on available information. Over the reporting year, entitlement decisions were moved to the centres for applications accepted in Islamabad, Sydney, Wellington, Canberra, and Dublin.

- **Participating in audits of Government of Canada offices in Cairo, Nairobi and Mexico by Foreign Affairs and International Trade Canada, to review their management control frameworks for the provision of passport services.** This work is important for the security and integrity of the passport program in these locations, as well as to optimize the level of services for clients.
- **Piloting passport program integrity training abroad.** By using online modules on best practices in identity authentication and fraud detection, this training further strengthens the ability of officers to identify and manage complex entitlement situations. Introduced in advance of the simplified renewal pilot in London, Dublin, and Hong Kong, it will be provided to other Government of Canada offices abroad as the simplified renewal process is rolled out globally.
- **Completing the security awareness pilot project for front-line staff to foster a workforce culture that safeguards the integrity of the entitlement process.** These informative and interactive workshops use real-life cases to highlight not only the roles and responsibilities of all players in the entitlement process, but also the value of the work that each individual employee plays in ensuring that only entitled Canadians receive a passport. The project was a joint initiative of Passport Canada's Security and its Operations bureaus. National implementation will occur in 2012–2013.
- **Launching an operations knowledge centre, to support front-line staff in their day-to-day work.** The centre features many useful tools and resources, including operational procedures, job aids, questions and answers, and entitlement policy clarifications. The features make practical knowledge readily accessible to passport officers to support sound entitlement decision making.
- **Developing a new database and toolkit for investigators to improve service, increase efficiency and simplify tasks.** In response to increasing demand for statistics and trend reporting and analysis, a customized database was created to more efficiently track case studies. To support efficient and timely data collection and security investigations, staff also developed a web-based toolkit to quickly access federal, provincial and territorial organizations.

2.3 Enhancement of Management Practices

Strong and innovative management practices are at the core of Passport Canada's success. How the organization manages people and resources—the processes, procedures and tools it uses—helps ensure that the passport program produces *trusted* identity documents that give Canadian travellers to gain visa-free entry to other countries.

In people management, Passport Canada continued to build an engaged workforce with a supportive workplace and learning environment. This year, key accomplishments include:

- **Improving staffing management accountability, as recognized by the Public Service Commission.** For the first time, in 2011–2012, Passport Canada fully met all of the Commission's 29 indicators in its Departmental Staffing Accountability Report. These indicators align with the Commission's Staffing Management Accountability Framework, designed to help make the staffing process more flexible and efficient, and to promote compliance with appointment values. This achievement is due to a sustained commitment to improving staffing management over several years.



- **Providing practical guidance to all managers and human resource specialists on their roles and responsibilities.** In 2011–2012, Passport Canada distributed the “HR Partnerships: Clear roles, shared responsibilities” guide, which explains how human resources supports managers in making informed and timelier management decisions from planning, recruitment and staffing, to occupational health and safety, and training. The guide also sets out service standards stipulating response times for key services, such as classifying positions, processing pay, and responding to pension and benefits enquiries.
- **Achieving leadership status in employment equity.** In its employment equity status report, the Canadian Human Rights Commission called the results of Passport Canada’s employment equity policy and plan “excellent”. It noted that we have better employment equity results compared to the rest of the federal public sector. Over 94% of Passport Canada employees completed a self-identification form. The results paint a highly accurate picture of the diversity of Passport Canada’s workforce.

Passport Canada made significant progress strengthening corporate administrative functions. These functions are internal services that play a critical enabling role supporting the effective and efficient delivery of the passport program. Accomplishments include:

- **Expanding utilization of the activity based management (ABM) planning model to internal services.** Passport Canada uses ABM as a core management tool at both the strategic and operational levels to enable continuous improvement. ABM focuses on the relationships between activities, cost drivers, and resources, to improve strategic and operational decisions. It supports fully informed management decisions that take account of *all* costs, direct and indirect, associated with all activities the organization undertakes. It enables accurate and complete financial analysis of all costs and savings associated with changing business practices and/or services. In 2011–2012, Passport Canada expanded ABM to security and human resources internal services planning.
- **Strengthening business continuity.** Passport Canada completed projects to ensure its facial recognition (FR) and case management systems can provide continuous service with no major interruptions, and to ensure the continued availability of mission critical IT systems in the event of a disaster.
- **Building business intelligence and analytics capacity.** In 2011–2012, Passport Canada took steps to keep its executives and managers regularly informed about issues and trends affecting the program including emerging security threats; new technologies in border management and control and identity management; and changing global travel patterns.
- **Improving materiel management and contract management to improve efficiency.** Over the reporting year, new policies and streamlined procedures were introduced to ensure these key internal services can meet Passport Canada’s business needs in a timely manner.

- **Implementing an integrated forms management program to reduce complexity and improve administrative efficiency and the user experience.** Following a forms study, including travel document application forms, an action plan was developed to consolidate and reduce the number of forms, make them more user-friendly, reduce costs, and improve administrative efficiency through central forms management.
- **Streamlining Passport Canada's executive committee structure to enable timelier and more effective allocation of resources to priorities.** Committees were reduced from eight to three to promote better coordination, integrated decision making, and stronger management of accountabilities.
- **Maturing corporate risk management approach to enable integrated risk management.** In 2011–2012, specific risks at the bureau, portfolio and project levels were assessed and aligned to the organization's corporate risk profile, enabling integrated risk management and strengthening strategic planning, corporate governance, and reporting on key project investments.
- **Implementing an organization-wide strategic portfolio practice for project investments to strengthen their oversight, performance, and risk management.** This practice ensures a balanced approach to the selection, investment and oversight of corporate projects, including IT projects, to maximize their value to the passport program. The practice includes an investment gating process and a monthly reporting tool on each corporate project of greater than \$1 million.

3 Positioning for the Future

3.1 The Challenges and Opportunities Ahead

Passport Canada is proud of its success in maintaining operations and providing passport services that set a global standard for excellence with no significant change to passport fees since 2001. We have developed leading capabilities and expert resources in service delivery and security, consistently achieving levels of client satisfaction that rank among the best in the world for passport programs. Our use of innovative management practices, including demand forecasting, daily oversight of performance metrics, and activity based management (ABM), have enabled us to maximize the efficient use of our infrastructure and resources in responding to fluctuating demand while keeping costs down.

The organization's strong track record is due in part to the discipline and accountability imposed by operating on full cost recovery. Living within the constraints imposed by a user-fee based funding model has helped us streamline operations and find efficiencies. Passport Canada continues to look for new, more efficient ways to conduct business without compromising security or service, allowing us to keep required fee increases for the next decade to a bare minimum. Vigilance and attention to value-for-money for our fee-paying clients will not change with the new fee structure. Passport Canada remains committed to living within its means.

The key is innovation, particularly process innovation and adopting sophisticated technology-enabled systems to deliver more with less. Going forward, innovation will be central to fulfilling our mission. Resources are required in the coming years to modernize the passport issuance system, which is coming to the end of its useful life. At the same time, as we launch the new 10-year ePassport, we will need to prepare for the next generation of the document. While the ePassport is a more secure, tamper-proof document, new threats continue to emerge as people and organizations intent on using travel documents for criminal purposes become more sophisticated. Standards, established by the International Civil Aviation Organization, are continuously updated. To protect the integrity of Canada's passport, we must keep pace and stay ahead of security threats. This will involve ongoing changes to the passport document's features and potentially, to the rules and procedures for obtaining one.

As stated in Budget 2012, the Government of Canada's fiscal agenda includes an ongoing commitment to pursue opportunities to enhance the efficiency and effectiveness of government operations and lower the cost of government services to Canadians. This involves new ways of working, streamlining processes, leveraging technology and sharing resources and infrastructure, to reduce the operating costs of government. To that end, Passport Canada participated in a Program Redesign exercise over the reporting year,

Over the next few years, departments will have to embrace innovative ways of delivering on their core business responsibilities. By working collaboratively across our organizations and beyond, streamlining our processes, and taking advantage of new technologies, we will be able to provide Canadians with better services at a lower cost.

—Wayne G. Wouters, Clerk of the Privy Council and Secretary to the Cabinet, Nineteenth Annual Report to the Prime Minister on the Public Service of Canada, March 31, 2012

examining ways it could share infrastructure and expertise, and in collaboration with other government departments and agencies, help reduce the cost of government. Over the coming year, Passport Canada looks forward to undertaking program modernization initiatives arising from this work with partner departments, to strengthen program integrity, improve service, and enable more cost-effective government operations.

3.2 Summary of Priorities for 2012–2013

Passport Canada’s priorities for 2012–2013 are focussed on maintaining our track record of excellence in secure service delivery, launching the 10-year ePassport and implementing the new fee structure, and contributing to the Government of Canada’s efforts to enhance the efficiency and effectiveness of government operations, programs and services.

Our operational priorities include:

- Delivering quality service to Canadians in Canada and abroad;
- Ensuring Canadian travel documents are secure and internationally recognized; and
- Introducing, in 2012–2013, a new 10-year ePassport that will enhance the security of the Canadian travel document.

Our management priorities include:

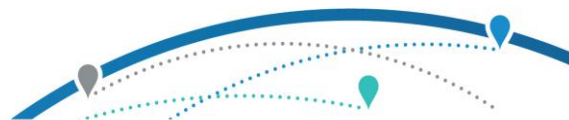
- Contributing to Government of Canada priorities for the Administrative Services Review (ASR), program modernization and whole of government solutions, while addressing risks and ensuring sustainable operations; and
- Continuing to improve planning, alignment of resources to priorities, and agency-wide financial and human resources management and systems.

4 Supplementary Information

4.1 Products

In total, Passport Canada issues eight types of travel documents for specific groups of applicants, as detailed below.

Product	Recipients
24-page passport <i>Blue cover</i>	Adult Canadian citizens
	Children: Canadian citizens under 16 years of age
48-page passport <i>Blue cover</i>	Adult Canadian citizens
	Children: Canadian citizens under 16 years of age
Emergency Travel Document <i>A security-enhanced, one-page document issued at Canadian missions worldwide that provides single-journey direct return to Canada or to the nearest mission where more comprehensive passport services can be obtained</i>	Canadians stranded abroad
Temporary passport <i>Valid for up to one year, depending on the applicant's travel plans, and must be exchanged for a regular passport within that time</i>	Canadians with urgent travel needs who apply from abroad
Diplomatic passport <i>Red cover</i>	Canadian diplomats, senior government officials, diplomatic couriers or citizens who are official delegates to international diplomatic conferences
Special passport <i>Green cover</i>	Persons representing the Government such as Members of Parliament and provincial ministers when on other types of official business
Refugee Travel Document <i>Used for travel everywhere except in the holder's country of origin. Valid for two years and may be extended</i>	People whom Citizenship and Immigration Canada considers refugees under the 1951 United Nations Convention relating to the Status of Refugees or those who fall under the terms of the <i>Immigration and Refugee Protection Act</i>
Certificate of Identity <i>Individually endorsed for travel to specific countries. It is valid for two years and is extendable</i>	Permanent residents of Canada who are without nationality or who are unable to obtain travel documentation from their country of origin



4.2 Trends

Passport possession rates continued to increase over the reporting year. As set out below, the possession rate increased in every province and territory.

Province/Territory	FY 2010–2011	FY 2011–2012	Variance
	Overall Rate	Overall Rate	Overall Rate
British Columbia	70.59%	74.17%	3.59%
Ontario	70.43%	73.96%	3.53%
Alberta	66.46%	69.81%	3.35%
Yukon	65.99%	68.08%	2.10%
Manitoba	57.47%	60.65%	3.18%
Quebec	56.62%	58.85%	2.23%
Saskatchewan	52.84%	55.56%	2.72%
New Brunswick	49.83%	52.71%	2.88%
Prince Edward Island	47.59%	50.39%	2.80%
Nova Scotia	47.12%	50.18%	3.06%
Northwest Territories	43.32%	46.85%	3.53%
Newfoundland and Labrador	39.22%	41.59%	2.37%
Nunavut	15.43%	17.12%	1.69%
CANADA	64%	66.69%	3.03%

Year over year, application volumes continue to fluctuate significantly. The steep rise in 2011–2012 was largely attributable to renewals on the fifth anniversary of the introduction of the Western Hemisphere Travel Initiative and the requirement for Canadians to have passports to enter the U.S.

Year	Applications Received		Travel Documents Issued	
	Number	Change from Previous Year	Number	Change from Previous Year
2007–2008	4,667,781	n/a	4,836,298	n/a
2008–2009	4,404,820	-5.64%	4,374,083	-9.54%
2009–2010	4,855,765	10.24%	4,823,380	10.28%
2010–2011	4,472,552	-8%	4,421,399	-8%
2011–2012	4,880,783	9.13%	4,806,699	8.71%



Despite Canadians' strong preference for in-person service, the percentage of applications received through the mail has been steadily rising in recent years. This is largely attributable to the simplified renewal process.

	Walk-In	Mail-In*
2006–2007	79%	17%
2007–2008	79%	17%
2008–2009	73%	23%
2009–2010	72%	24%
2010–2011	72.2%	23.7%
2011–2012	71.8%	24.2%

* Includes receiving agents (RA), Member of Parliament (MP), and mail-in channels



Annexes

Annex A – Agency Bureaus

Operations

This bureau, with staff in 34 regional offices, 2 call centres, and 2 print centres, is responsible for service delivery and the passport issuance process, including application acceptance, entitlement determination, quality control, printing, and passport delivery. Passport Canada print centres also print and deliver passports to Canadian citizens worldwide through 236 DFAIT points of service. In addition, the bureau processes official passports as well as certificates of identity and refugee travel documents.

Security

This bureau ensures the integrity of Canadian travel documents and the related entitlement and issuance processes. This is achieved through the provision of strategic guidance on entitlement and issuance policies and expert advice on complex entitlement decisions, and investigations of suspected fraudulent activity, collection and sharing of information on lost or stolen passports, and development of domestic and international intelligence networks.

Legislation and International Relations

This is a temporary bureau established to conduct the consultation process on passport services as required under the *User Fees Act*. The bureau has the leadership role in the consultation process to develop and propose a new fee structure for the passport program. It also plays a strategic role on the international front, conducting research on relevant international best practices, and engages with stakeholders such as ICAO.

Business Information Technology

This bureau delivers enterprise architecture and IT security programs, provides efficient and client-focused software engineering services, and manages the IT infrastructure to ensure high availability and system effectiveness in support of strategic and operational goals.

Corporate Services

This bureau provides a network of corporate and support services for the Canadian passport program. It oversees compliance with legislative and central agency requirements pertaining to finance and administration, supports the organization's business planning process and information management, ensures the security of assets and people, and manages a network of facilities across the country.

Enterprise Alignment and Innovation

This bureau acts as an office of strategy management. In support of the CEO and the Executive Committee, it leads and facilitates the establishment of strategic direction, determines the portfolio of corporate initiatives, develops the corporate risk profile and program performance framework, and oversees corporate reporting obligations and associated strategic management practices.

Human Resources

This bureau has organization-wide responsibilities, including staffing, classification, talent management, compensation and benefits administration, operational training design and delivery, and learning and development services. The bureau also manages labour relations, human resources policy and planning, official languages and employment equity, health and safety, employee assistance, awards and recognition, and values and ethics.

Policy, Research and Communications

The central role of this bureau is entitlement and strategic policy development. The bureau also develops the volume forecasting model and prepares, reviews, and updates forecasts. Other areas of activity include operations performance reporting, analytics, corporate communications, ministerial and corporate correspondence, and liaison with the organization's counterparts or stakeholders.

Annex B – Financial Statements

PASSPORT CANADA REVOLVING FUND

Year ended March 31, 2012

PASSPORT CANADA REVOLVING FUND

STATEMENT OF MANAGEMENT RESPONSIBILITY

We have prepared the accompanying financial statements of the Passport Canada Revolving Fund as required by and in accordance with the policy of the Treasury Board on revolving funds and the reporting requirements and standards of the Receiver General for Canada. These financial statements were prepared by the management of the Fund in accordance with the significant accounting policies set out in Note 2 of the statements on a basis consistent with that of the preceding year.

Responsibility for the integrity and objectivity of these financial statements rests with the management of the Fund. The information included in these financial statements is based on management's best estimates and judgement with due consideration given to materiality. To fulfill its accounting and reporting responsibilities, the Fund maintains a set of accounts that provides a centralized record of the Fund's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in the Department of Foreign Affairs' and International Trade's *Departmental Performance Report* is consistent with these financial statements.

The Fund's directorate of financial operations develops and disseminates financial management and accounting policies and issues specific directives that maintain standards of accounting and financial management. The Fund maintains systems of financial management and internal control that give due consideration to costs, benefits and risks. The systems are designed to provide reasonable assurance that transactions are properly authorized by Parliament, are executed in accordance with prescribed regulations, and are properly recorded to maintain accountability of government funds and safeguard the assets under the Fund's administration. The Fund also seeks to assure the objectivity and integrity of data in its financial statements by the careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that its regulations, policies, standards and managerial authorities are understood throughout the organization.

Management has presented the financial statements to the independent auditors, who have audited them and provided an independent opinion that has been appended to these financial statements.

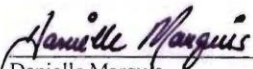
Approved by:


Michel Brunette
Deputy Chief Financial Officer
Passport Canada

12/05/29
Date


Christine Desloges
Chief Executive Officer
Passport Canada

12/05/29
Date


Danielle Marquis
Director General
Corporate Services & Human Resources
Passport Canada

12/05/29
Date



Financial Statements

Passport Canada Revolving Fund

March 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Assistant Deputy Minister and Chief Financial Officer, Department of Foreign Affairs and International Trade

We have audited the accompanying financial statements of **Passport Canada Revolving Fund**, which comprise the statement of financial position as at March 31, 2012 and the statements of operations and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

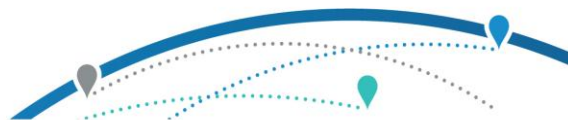
Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 6.4 of the Treasury Board's policy on special revenue spending authorities, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Passport Canada Revolving Fund** as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Section 6.4 of the Treasury Board of Canada's accounting policy on special revenue spending authorities.

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the **Passport Canada Revolving Fund** to comply with the financial reporting provisions of the Treasury Board of Canada referred to above. Our auditors' report is intended solely for the information and use of the **Passport Canada Revolving Fund** and the Treasury Board of Canada and should not be used by parties other than **Passport Canada Revolving Fund** or the Treasury Board of Canada.

Ernst & Young LLP

Ottawa, Canada,
May 25, 2012.

Chartered Accountants
Licensed Public Accountants

Passport Canada Revolving Fund

STATEMENT OF FINANCIAL POSITION

As at March 31
[in thousands of dollars]

	2012 \$	2011 \$
ASSETS		
Current		
Accounts receivable		
Government of Canada	5,936	9,520
Outside parties	380	267
Prepaid expenses	525	381
Inventories	8,390	13,217
	<u>15,231</u>	<u>23,385</u>
Long-term		
Capital assets [note 3]		
At cost	183,797	182,640
Less accumulated amortization	(138,129)	(132,590)
	<u>45,668</u>	<u>50,050</u>
	<u>60,899</u>	<u>73,435</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities		
Government of Canada	3,673	6,162
Outside parties		
Accounts payable	12,985	11,614
Vacation pay	4,505	4,418
Contractors' holdbacks	577	713
Deferred revenue	—	46
Employee termination benefits	2,997	18,404
	<u>24,737</u>	<u>41,357</u>
Long-term		
Employee termination benefits	7,080	4,752
	<u>31,817</u>	<u>46,109</u>
Net Assets [note 4]	<u>29,082</u>	<u>27,326</u>
	<u>60,899</u>	<u>73,435</u>

Commitments [note 5]

See accompanying notes

Passport Canada Revolving Fund

STATEMENT OF OPERATIONS AND CHANGE IN NET ASSETS

As at March 31
[in thousands of dollars]

	2012	2011
	\$	\$
Revenues		
Fees earned	293,307	268,939
Miscellaneous revenues	334	602
	<u>293,641</u>	<u>269,541</u>
Expenses		
Salaries and employee benefits	178,317	169,859
Freight, express and cartage	29,142	26,795
Passport materials	24,160	21,992
Professional and special services [note 6]	25,012	20,534
Accommodation	16,173	15,965
Amortization	11,376	10,379
Passport operations at missions abroad [note 6]	4,334	4,425
Telecommunications	1,550	3,103
Repair and maintenance	4,818	4,808
Information	4,028	2,673
Printing, stationery and supplies	2,751	4,077
Travel and removal	1,648	2,329
Provision for employee termination benefits	4,617	3,101
Rentals	449	434
Miscellaneous	104	166
Postal services and postage	47	46
	<u>308,526</u>	<u>290,686</u>
Net results	<u>(14,885)</u>	<u>(21,145)</u>
Net assets, beginning of the year [note 4]	27,326	23,699
Net financial resources used and change in the accumulated net charge against the Fund's authority during the year	17,061	24,772
Transfer to other government department [note 7]	(420)	—
Contributed capital		
Net assets, end of the year [note 4]	<u>29,082</u>	<u>27,326</u>

See accompanying notes

Passport Canada Revolving Fund

STATEMENT OF CASH FLOWS

As at March 31
[in thousands of dollars]

	2012 \$	2011 \$
OPERATING ACTIVITIES		
Net results	(14,885)	(21,145)
Add		
Provision for employee termination benefits	2,328	(15,478)
Amortization	11,376	10,379
	(1,181)	(26,244)
Changes in current assets and liabilities <i>[note 8]</i>	(8,466)	9,754
Net financial resources used by operating activities	(9,647)	(16,490)
INVESTING ACTIVITIES		
Capital assets acquired	(7,713)	(8,282)
Net financial resources used by investing activities	(7,713)	(8,282)
FINANCING ACTIVITIES		
Transfer to other government departments <i>[note 7]</i>	299	—
Net financial resources generated by financing activities	299	—
Net financial resources used and change in the accumulated net charge against the Fund's authority during the year	(17,061)	(24,772)
Accumulated net charge against the Fund's authority, beginning of year	33,594	58,366
Accumulated net charge against the Fund's authority, end of year <i>[note 4]</i>	16,533	33,594

See accompanying notes

Passport Canada Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2012

[Tabular figures in thousands of dollars]

1. AUTHORITY AND PURPOSE

The Passport Canada Revolving Fund [the "Fund"] was established in 1969 to provide for the issue of appropriate travel documents to Canadian citizens and to certain permanent residents of Canada who are unable to obtain valid passports from their country of origin. The Revolving Funds Act authorized the operation of the Fund.

The Fund has a continuing non-lapsing authority from Parliament to make payments out of the Consolidated Revenue Fund for working capital, capital acquisitions and temporary financing of accumulated operating deficits.

Commencing April 1, 2011, the Fund's non-lapsing authority increased from \$4,000,000 to \$131,204,000 for the purposes of the ePassport project and operations.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

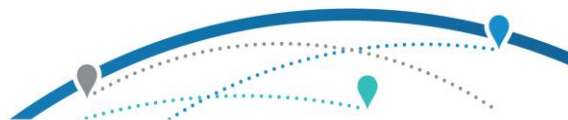
These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the requirements of Section 4 of the Treasury Board of Canada *Policy on Special Revenue Spending Authorities* and the reporting requirements for revolving funds prescribed by the Receiver General for Canada. The basis of accounting used in these financial statements differs from Canadian generally accepted accounting principles because:

- revenues from passport service request fees are recognized upon receipt of payment and verification of an application for completeness as stated in the Regulations prescribing fees for passport services; and,
- funding for capital assets received from Treasury Board is recorded as contributed capital and not as a reduction of the cost of capital assets.

Revenue recognition

Revenues from passport fees are recognized upon request for a passport service, which is upon receipt of payment and verification of the passport application for completeness.

1



Passport Canada Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2012

[Tabular figures in thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Inventory

Inventories of materials and supplies are carried at the lower of cost using the average cost and the net realizable value.

Capital assets

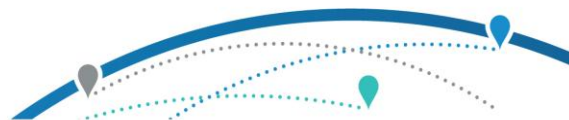
Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives, as follows:

Category	Estimated useful life
Capital Projects	Once in service
Leasehold Improvements	Lease term
Furniture	10 years
Vehicles	5 years
Electronic data processing [EDP] equipment	3 – 5 years
Other machines and equipment	5 years

The capital projects category includes assets under construction which are not yet amortized. Leasehold improvements are amortized on a straight-line basis on the lesser of the remaining term of the lease or estimated useful life of the improvement.

Employee termination benefits

Employees of the Fund are entitled to specified termination benefits, calculated based on salary levels in effect at the time of termination as provided for under collective agreements and conditions of employment. The cost of these benefits is recorded in the accounts as the benefits accrue to the employees. The obligation relating to the benefits earned by employees is calculated using information derived from results of the actuarially determined liability for employee's termination benefits for the government as a whole and is provided by Treasury Board of Canada.



Passport Canada Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2012
[Tabular figures in thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Pension plan

Employees of the Fund are covered by the Public Service Retirement Pension Plan [the "Plan"] administered by the Government of Canada. Under present legislation, contributions made by the Fund to the Plan are limited to an amount equal to the employee's contributions on account of current service. These contributions represent the total pension obligations of the Fund and are charged to operations on a current basis. The Fund is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account and/or with respect to charges to the Consolidated Revenue Fund for the indexation of payments under the *Supplementary Retirement Benefits Act*.

Use of estimates

The preparation of financial statements requires management and the Treasury Board Secretariat to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of estimates relate to employee termination benefits and to accrued liabilities. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

Financial instruments

The Fund's financial instruments consist of accounts receivable, accounts payable, accrued liabilities and employee termination benefits. The carrying values of these financial instruments approximate their fair value because of their short terms to maturity. Unless otherwise noted, it is management's opinion that the Fund is not exposed to significant interest, currency or credit risk arising from these financial instruments.

Passport Canada Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2012

[Tabular figures in thousands of dollars]

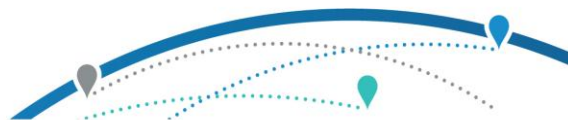
3. CAPITAL ASSETS AND ACCUMULATED AMORTIZATION

Capital Assets	Balance, beginning of the year \$	Acquisitions \$	Disposals, transfers and adjustments \$	Balance end of the year \$
Technology Enhancement Plan				
Project	33,877	—	—	33,877
Capital projects	16,887	6,159	(9,917)	13,129
Leasehold Improvements	93,414	232	6,722	100,368
Furniture	84	—	—	84
EDP equipments	36,436	1,292	(3,306)	34,422
Vehicles	41	—	—	41
Other machines and equipments	1,901	30	(55)	1,876
	182,640	7,713	(6,556)	183,797

Accumulated Amortization	Balance, beginning of the year \$	Amortization \$	Balance end of the year \$	Net book value \$
Technology Enhancement Plan				
Project	33,877	—	33,877	—
Capital projects	—	—	—	13,129
Leasehold Improvements	74,075	1,911	75,986	24,382
Furniture	81	1	82	2
EDP equipment	23,052	3,343	26,395	8,027
Vehicles	20	8	28	13
Other machines and equipment	1,485	276	1,761	115
	132,590	5,539	138,129	45,668

The capital projects category includes assets under construction which are not yet amortized.

Effective November 15, 2011, the Fund transferred capital assets with a net book value of \$718,539 and a related cumulated amortization of \$5,837,040 to Shared Services Canada. This transfer is included in the disposals, transfers and adjustments column as well as in the amortization column [refer to note 7 for further details regarding the transfer].



Passport Canada Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2012

[Tabular figures in thousands of dollars]

4. NET ASSETS

	2012 \$	2011 \$
Accumulated net charge against the Fund's authority	(16,533)	(33,594)
Accumulated surplus	(34,859)	(19,554)
Contributed capital	80,474	80,474
	<u>29,082</u>	<u>27,326</u>

Accumulated net charge against the Fund's authority:

Accumulated net charge against the Fund's authority is the cash position of the Fund, held by the Government on the Fund's behalf.

Accumulated surplus:

The accumulated surplus is an accumulation of each year's surpluses including the absorption of the opening net assets of \$746,000 upon establishment of the Fund and adjustment to the Fund net financial position of \$419,771 [refer to note 7 for details].

Contributed capital:

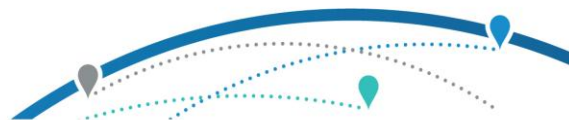
In the year, there were no additional capital contributions from Treasury Board Secretariat to finance the Fund's capital projects

5. COMMITMENTS

The Fund rents office premises and other office equipment under long-term operating leases, which expire through 2020. Because of the nature of its activities, Passport Canada is also engaged in contractual obligations for the purchase of goods and other services. Expected future minimum payments are approximately as follows:

	\$
2013	83,008
2014	58,625
2015	48,471
2016	45,420
2017	5,843
2018 and thereafter	6,119
	<u>247,486</u>

5



Passport Canada Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2012

[Tabular figures in thousands of dollars]

6. RELATED PARTY TRANSACTIONS

Through common ownership, The Fund is related to all Government of Canada created departments, agencies and Crown corporations. Payments for passport operations at missions abroad, accommodation and legal services are made to related parties in the normal course of business. All related party transactions are accounted for at the exchange amount, which represents the consideration agreed to by both parties.

As part of its operations, the Fund, which is an agency of the Department of Foreign Affairs and International Trade [DFAIT], collects Consular fees on behalf of DFAIT Consular Affairs Division. These fees are not recorded as revenues in the Statement of Operations and Change in Net Assets. In 2012, the Fund collected and remitted to DFAIT \$94,552,570 [2011 – \$86,042,905] in consular fees.

In December of 2008, Service Canada and the Fund signed a memorandum of understanding governing the cost of processing passport applications. Effective for all applications processed by Service Canada from June 2008 onwards, a fee of \$12.39 per application will be charged to the Fund. These fees are reported in the Professional and Special Services line item in the Statement of Operations and Change in Net Assets. In 2012, Service Canada charged the Fund a total of \$5,999,071 [2011 – \$4,884,398] for application processing fees.

7. TRANSFER TO OTHER GOVERNMENT DEPARTMENTS

Effective November 15, 2011, the Fund transferred its information technologies services to Shared Services Canada [SSC] in accordance with Order-in-Council P.C. 2011-1291 to P.C. 1297, including the stewardship responsibility for the assets and liabilities related to the service activities. Accordingly, the Fund transferred the following assets and liabilities related to the information technologies services to SSC on November 15, 2011:

	\$
Asset	
Capital assets [net book value] [note 3]	719
Total assets transferred	<u>719</u>
Liabilities	
Accrued salaries and wages	59
Employee future benefits	85
Telecommunication services	155
Total liabilities transferred	<u>299</u>
Adjustment to Passport Canada net financial position	<u>420</u>

6

Passport Canada Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2012

[Tabular figures in thousands of dollars]

7. TRANSFER TO OTHER GOVERNMENT DEPARTMENTS [Cont'd]

During the transition period, the Fund continued to administer the transferred activities on behalf of SSC. The administered expenses amount to \$3,867,149 for the year.

8. CHANGES IN CURRENT ASSETS AND LIABILITIES

	2012 \$	2011 \$
Assets		
Accounts receivable – Government of Canada	3,584	(5,284)
Accounts receivable – Outside parties	(113)	38
Prepaid expenses	(144)	(117)
Inventories	4,827	(967)
Accounts payable and accrued liabilities		
Government of Canada	(2,489)	(1,547)
Outside parties – Accounts payable	1,371	(664)
Outside parties – Vacation pay	87	258
Outside parties – Contractors' holdbacks	(136)	214
Deferred revenue	(46)	(20)
Employee termination benefits	(15,407)	17,843
	(8,466)	9,754