



# 2020

## ANNUAL REPORT



Canada

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# CATSA at a Glance

# 226

STANDARD SCREENING LINES

# 448

CATSA employees



# 89

DESIGNATED AIRPORTS



over **7,300**

active screening personnel<sup>1</sup>



Over **65 million** passengers screened

# 73

CATSA Plus

screening lines

# 122

pre-board screening checkpoints

<sup>1</sup>This figure includes active screening officers as well as active recruits.

# CATSA's evolution in numbers

# 2003



**3 million** passengers per month

# 2019/2020



**5.4 million** passengers per month

# 15

 screening contractors

# 3

 screening contractors

**3,300** screening officers



**7,300** screening officers

# 125

 CATSA EMPLOYEES

112 at headquarters 13 in the regions

# 448

 CATSA EMPLOYEES

across the country.





## 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 we 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 RESPONSIBILITY

As per the Treasury Board of Canada Secretariat 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.

### 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. CATSA fulfils this responsibility 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 such as explosives, 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.

### CARGO

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.

### COST-RECOVERY

In 2018, Bill C-49, the *Transportation Modernization Act*, introduced authorities allowing CATSA to provide supplemental screening services, so long as the provision of these services remains cost neutral. With the approval of Transport Canada, CATSA has engaged in these types of cost recovery activities since 2014.

CATSA may provide services on a cost-recovery basis to both designated and non-designated airports.



# CATSA HAS RISEN TO THE CHALLENGE ADMIRABLY

MARGUERITE NADEAU / CHAIRPERSON

## MESSAGE FROM OUR CHAIRPERSON

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The COVID-19 pandemic disrupted every aspect of Canadian life, and aviation screening was certainly not spared. CATSA has risen to that challenge admirably. On behalf of the Board I thank every employee of CATSA and of our screening contractors for ensuring that we continue to fulfill our mandate even in such challenging times.

The theme of this year's Annual Report is "Evolution," an idea that is at the top of our minds now as we continue adjusting to these unprecedented events, and to anticipate and shape the new normal that will result.

Evolution was already very much on our radar prior to the pandemic, as CATSA began the process of preparing for the possible transition from a Crown Corporation to a private, not-for-profit entity. This is, of course, a huge change for CATSA, but one we were prepared for, having aided the government in its review of CATSA's governance. Transition is the result of that review.

We do not know if and when the transaction will be completed, but I assure you that the Board of Directors has been working diligently to support transition planning and activities. We created a Transaction Committee to evaluate information related to this process as we move forward. It is important to note that because some of our Board members are nominated by industry, it was critical to ensure that the Committee was populated only by those members with no vested interest in the results of the transaction, besides their interest in aviation security.

The work of fulfilling CATSA's mandate continued over the past year, even as the work toward transition ramped up, even as we navigated the disruption of the pandemic. Most notably, the Board oversaw the ongoing implementation of CATSA Plus, which continues to be popular with our airport partners. This year the Board also hosted a visit by Tom Ruth, President and CEO of the Edmonton International Airport, who came to express his enthusiasm for the CATSA Plus system and to thank CATSA for a strong partnership during his airport's recent Security Hall upgrade.

I have been pleased to spend a full year with the same 10 Board members. We have a mix of skills and experience that is well suited to guiding the organization during these times of expected and unexpected change. I thank them all for their excellent work this past year.

On behalf of the Board, I also thank CATSA's dedicated employees for their resilience and adaptability in the face of the past year's challenges, and for continuing their work to evolve the organization as required. Our appreciation goes also to the front-line screening officers for their unwavering dedication to CATSA's mandate of securing aviation in Canada.

I look forward to continuing to lead this Board into the coming year, which will certainly be an eventful one for CATSA, and will mark the next major step in its ongoing evolution.



**MARGUERITE NADEAU**  
CHAIRPERSON



# ONE OF OUR GREATEST STRENGTHS IS THE ABILITY TO HANDLE CHANGE – TO ANTICIPATE, TO RESPOND, TO ADAPT.

MICHAEL SAUNDERS / PRESIDENT AND CEO

## MESSAGE FROM OUR PRESIDENT AND CEO

The theme of this year's report is Evolution to reflect the major changes we are going through and planning for. It is a state we have come to know well, as the air security environment has continually adapted since CATSA's inception. Because of this, one of our greatest strengths is the ability to handle change – to anticipate, to respond, to adapt. Whether it is changes to the threat environment, changes to the workplace or current changes to the overall air and travel industry, CATSA evolves in tandem.

I am proud of CATSA's response to the challenge posed by the COVID-19 pandemic. We have come together as an organization to respond to the changing circumstances, and worked quickly and closely across branches and with our industry and government partners to ensure that we are able to continue achieving our mission.

At the beginning of this year, before the new coronavirus had even been heard of, we were given a dual mandate – to work toward a potential transition, and to continue to deliver on our critical role of protecting the travelling public by securing specific elements of the air transportation system. And I am pleased and proud to say we have been succeeding at both, even in the current circumstances.

Transport Canada, on behalf of the government, and the newly formed Designated Screening Authority (DSA), made up of appointees from across the aviation industry, are responsible for negotiating the sale of CATSA's assets and liabilities to a not-for-profit entity. CATSA is in a supporting role, answering questions and filling in information as needed.

We are committed to a planning and operational approach that embraces all of the ways that we can support and facilitate four things:

- stable, ongoing security screening operations at the airports;
- the sale of CATSA assets to the DSA;
- the activities required for a possible transition to a new DSA; and
- the winding up of CATSA.

The goal for us, is a seamless transition to the new not-for-profit entity. In the meantime, we are planning for a variety of scenarios. Quality planning is our best option in a period of substantial change and it gives us the capacity to alter and adapt as needed.

In the meantime, we continue with our business. It was an extraordinary end to 2019/20, with non-essential travel suspended and the country and its economy in various states of lockdown. I can say that, prior to that disruption, we were on track for another year of passenger growth, and that we were nonetheless exceeding our wait-time service level targets once again. I can also report with pride on our progress on longer-term projects. Our CATSA Plus rollout continued with new lines in four airports, and our 10-year hold baggage screening recapitalization project is still slated for completion in 2021.

One metric I always watch carefully is passenger confidence. In our quarterly survey, we ask people how confident they are that the security screening procedures they just experienced make air travel more secure. I am pleased to say that 83.7 percent of passengers said so this year – eight percentage points above our corporate target. That is a definite expression of support for the work that we do and we aim to maintain a high level of passenger confidence going forward.

This all leads me to say that we are in a strong position to step into the new fiscal year. I do not for a moment think it will be an easy one – the ongoing repercussions of the pandemic mean it will be a year of uncertainty as the new status quo gradually reveals itself. But evolution isn't supposed to be easy.

I'm grateful for the opportunity I have had to lead CATSA through some of its evolution, and to lead it through the changes to come.



MICHAEL SAUNDERS  
PRESIDENT AND CEO







## OPERATING ENVIRONMENT

### LEGISLATIVE FRAMEWORK

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*; the *Financial Administrations Act (FAA), Part X*; the *Aeronautics Act*; the *Canadian Aviation Security Regulations, 2012*; and the *Security Screening Measures*.

This legislative and regulatory framework is the foundation upon which CATSA develops its Standard Operating Procedures (SOPs) as well as its training program to guide screening officers in the performance of their duties.

CATSA's legislative framework may change moving forward, pending the possible transition from an agent Crown corporation to an independent not-for-profit entity. This potential transition is enabled through the *Security Screening Services Commercialization Act*, which received Royal Assent in June of 2019.

### REGULATORY ENVIRONMENT

Transport Canada is responsible for monitoring regulatory changes introduced by 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 trialing the Full Body Scanner (FBS) as the primary security screening tool for passengers at PBS, Trusted Traveller program enhancements and the addition of new U.S. Customs Pre-clearance sites.

Recent discussions at the International Civil Aviation Organization (ICAO) have focused on the future of NPS, which has potentially significant impacts for CATSA. As a result, CATSA supported Transport Canada throughout 2018/19 by providing information needed to present a proposal to the 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. ICAO recently adopted a 100% screening standard for non-passenger screening. Transport Canada is currently assessing how this requirement could be implemented in Canada, and the department plans to complete a consultation process with industry representatives on this subject in 2020.

Last year, the Canadian Transportation Agency (CTA) conducted a regulatory review with the goal of ensuring that the transportation sector become more accessible to all Canadians. At the end of the review, the CTA published new regulations. These regulations ensure that all stakeholders in the transportation sector uphold standards for accessibility. In the context of CATSA's mandate, this means ensuring that the accessibility needs of passengers are met throughout the security screening process. CATSA is currently focused on implementing recurring training for screening officers to ensure the provision of safe, sensitive, and effective security screening of persons with disabilities and/or any other impairments.

### PREVIOUS ANNUAL REPORTS



2003



2004



2005



2006

## GOVERNANCE FRAMEWORK

In Budget 2019, the Government of Canada announced its intention to introduce legislation to enable the creation of an independent not-for-profit corporation which would assume the responsibility for aviation security screening at Canada's airports. The Government followed through by introducing the *Security Screening Services Commercialization Act* which received Royal Assent on June 21, 2019, while industry established the Designated Screening Authority (DSA) to negotiate with Transport Canada. The transfer of responsibilities from CATSA to the DSA, and provisions related to the sale or disposition of CATSA's assets and liabilities are subject to the negotiations.

CATSA will continue the delivery of excellent aviation security screening services while supporting the seamless transfer of responsibility as required.

## INDUSTRY PARTNERS

CATSA operates in a highly integrated environment with several different entities assigned to specific security responsibilities, including other government entities, airport authorities, air carriers, law enforcement agencies, and international partners. 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.

## LABOUR RELATIONS

CATSA outsources its services to screening contractors, who rely on a unionized workforce to deliver screening services. CATSA has certain responsibilities regarding 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 for all Class I airports have been renegotiated and have expiry dates in 2021 and 2022. CATSA works closely with screening contractors to maintain labour stability throughout these collective bargaining cycles, which is key to CATSA's successful operations.

## OFFICIAL LANGUAGE REQUIREMENTS

### Office of the Commissioner of Official Languages – Audit Recommendation Application

In the two (2) years since the most recent audit by the Office of the Commissioner of Official Languages (OCOL), CATSA, and its screening contractors have implemented many measures to improve service in both of Canada's official languages at designated bilingual airports across the country.

### CATSA

In order to address the OCOL's recommendations, CATSA has created new roles within its organization, namely of four regional Official Languages Coordinators, as well as an Official Languages Coordinator located at its headquarters in the National Capital Region. These new roles enable CATSA to more effectively meet its obligations and fulfil its responsibilities regarding the provision of screening services in both official languages.

CATSA has also increased the amount of signage at airports informing passengers of their right to receive screening services in the language of their choice. CATSA prioritizes the provision of services in both official languages, and conducts regular performance measurement activities for bilingual screening services across Canada and at the organization's headquarters.

CATSA conducts comprehensive surveys at each checkpoint in all Class I airports. The most recent results conclude that 97% of passengers are served in the official language of their choice. These surveys will continue to help the organization ensure a high level of service in the provision of bilingual screening services.

Through our relationships with minority language communities all over Canada, CATSA is able to identify areas for improvement to the screening process, and to facilitate relationships between those communities and the screening contractors that provide screening services.

### Screening Contractors

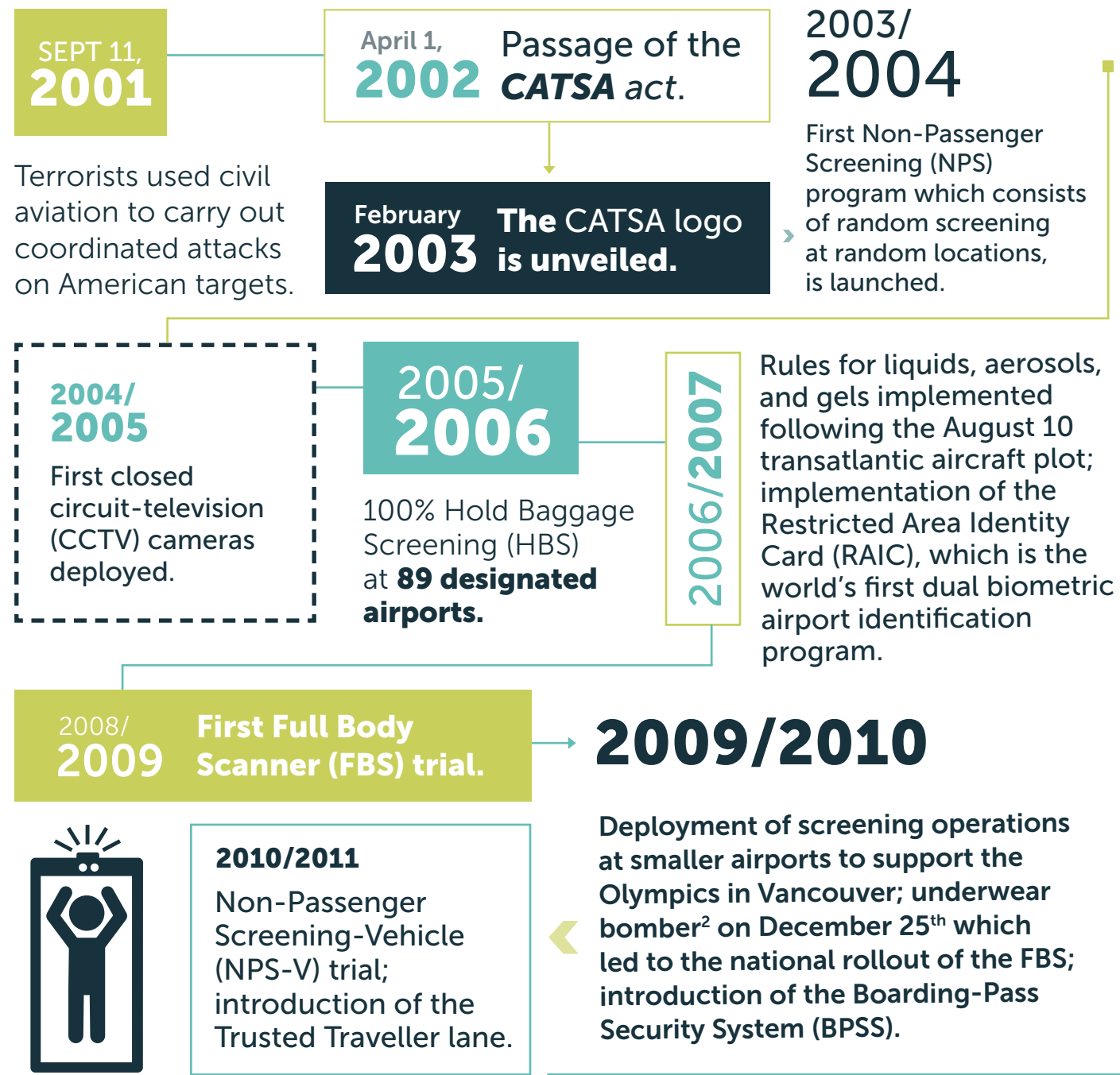
Screening contractors have also implemented many measures to improve the availability of bilingual screening services, such as the provision of language training and tools, incentive programs for the retention of bilingual screening officers, outreach to francophone community associations and recruiters, and improved French-language assessments in their hiring processes.

Together, CATSA, its screening contractors, and screening officers continue to work towards providing a high level of service in both official languages.

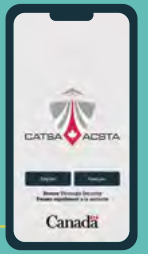
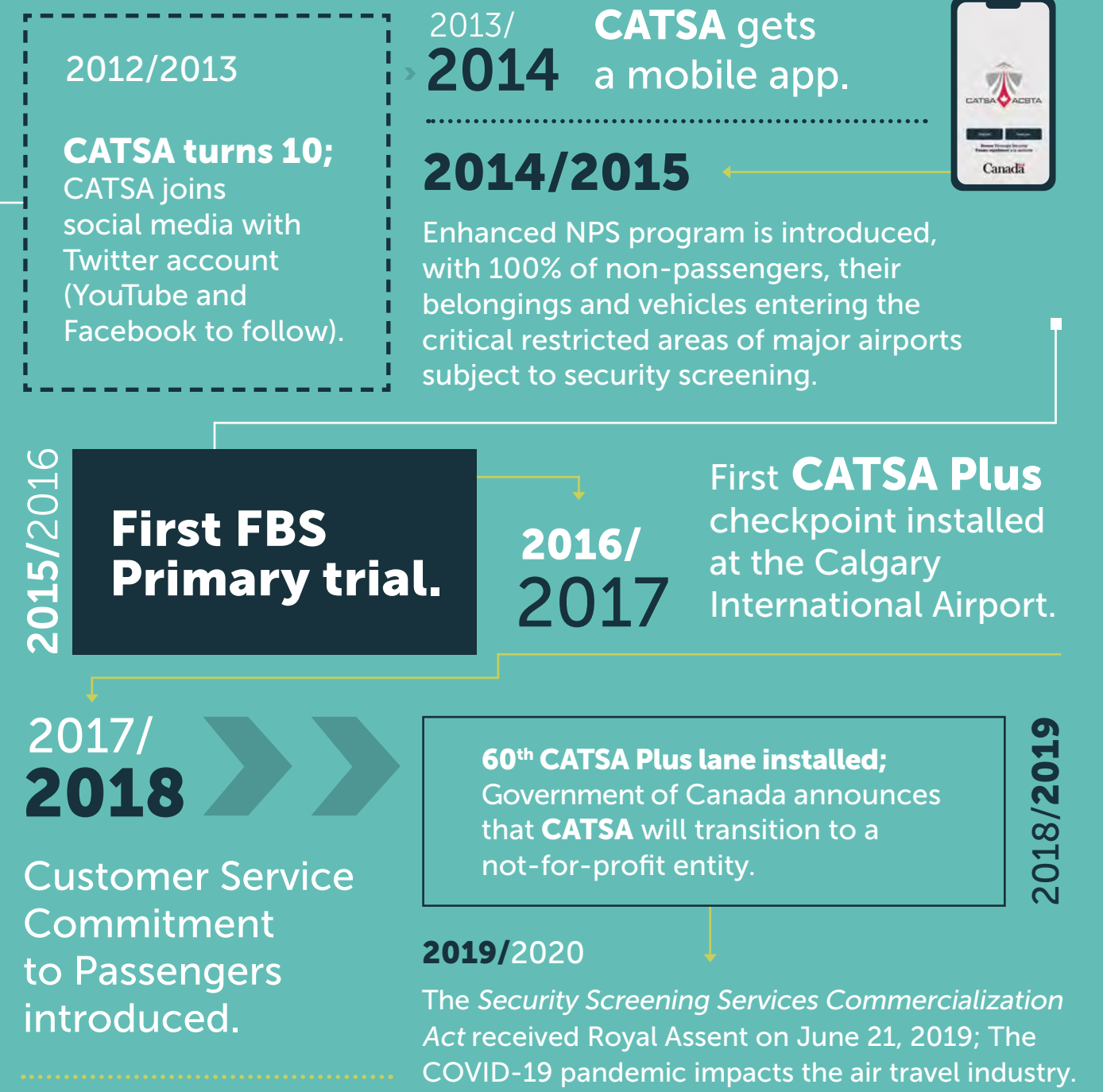




# Then, Now, and Beyond



# Then, Now, and Beyond



<sup>2</sup>A passenger on a commercial airliner bound for the United States unsuccessfully attempted to detonate a plastic explosive device hidden in his underwear.

# ANNUAL HIGHLIGHTS

1.

CATSA played a major role in supporting Transport Canada as it engaged in negotiations with the new DSA, ahead of our potential transition to an independent not-for-profit entity.

2.

CATSA exceeded its wait-time service level target this year. On average, 94% of all passengers waited fifteen (15) minutes or less to be screened at Class I airports.

3.

In the Spring of 2019, CATSA launched the *Real People Series*, a campaign that highlights our screening officers. It features pull-up banners at PBS checkpoints, as well as videos and screening officer profiles on CATSA's social media channels and website.

4.

This year, 60% of passengers travelling through Canadian airports were screened at CATSA Plus lines.

5.

The HBS Recapitalization Program which is a 10-year investment worth almost \$600M, focused on updating HBS technologies for the purpose of life-cycle management. Of the forty-five (45) total planned projects, thirty-five (35) are live.

6.

This year, passenger satisfaction reached an average of 86%, above CATSA's target rate.

7.

CATSA made a concerted effort to engage with Indigenous Elders to ensure that the organization considers the impact of security screening processes on Indigenous communities and sacred items. CATSA continues to engage with Indigenous Elders in order to develop training for our personnel and screening officers.

8.

Again this year, CATSA worked with airport authorities and charitable organizations across the country to help support people with autism and/or special needs and their families, by helping to familiarize them with the air transportation system.

9.

Of the 448 non-unionised people currently employed by CATSA, 13% have been with CATSA since its beginning.

10.

In response to COVID-19, CATSA promptly implemented several measures at its checkpoints and its offices to protect the travelling public, screening officers, non-passengers, and CATSA personnel.





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

Since the installation of the first five (5) CATSA Plus lines at the International terminal of the Calgary International Airport more than three years ago, CATSA has continued to roll out new lines across the country. This year, CATSA deployed eight (8) new CATSA Plus screening lines to Edmonton, Toronto, Halifax, and Vancouver international airports. In total, CATSA now operates seventy-three (73) CATSA Plus screening lines across the country, with plans to deploy additional lines in the coming years.

In order to meet its mandated objectives, CATSA continues to implement software updates that will help screening officers perform their duties in the most effective and efficient way possible. Staffing guidelines were formalized, business continuity plans and troubleshooting instructions were updated, and management contingency drills were implemented.

#### **Full-Body Scanner (FBS) Primary Deployment**

Approved by Health Canada, FBS units use low-level radio-frequency to detect both metallic and non-metallic objects on a person. These units are used at PBS checkpoints as a means of secondary screening, given that they provide increased security value compared to the Walk-Through Metal Detector (WTMD) alone. Understanding their security value, it is both CATSA's and Transport Canada's intent to utilize FBS more often as the primary passenger-screening tool.

To this end, CATSA relocated existing FBS machines to primary screening positions at larger Transborder checkpoints, using funding designated for this purpose. In 2019/20, CATSA operationalized FBS primary screening at eleven (11) Transborder checkpoints at Montreal, Toronto, Calgary, and Vancouver international airports. FBS primary screening was also implemented at the Domestic checkpoint at Edmonton International Airport. The deployment of FBS as a primary means of security screening will serve to enhance aviation security for travellers.

## **REPORTING ON RESULTS**

### **PRE-BOARD SCREENING (PBS)**

#### **PBS Wait Time Service Levels**

In 2019/20, CATSA delivered a wait time service level (WTSL) where, on average, approximately 94% of all passengers waited fifteen (15) minutes or less to be screened at Class I airports on an annual basis, which is above CATSA's funded WTSL, where an average of 85% of passengers wait fifteen (15) minutes or less to be screened.

It is important to remember that this performance is reflective of an average of the WTSL at all Class I airports across the country, and that wait times for passengers may vary in specific situations. For example, longer wait times will occur during peak periods, when checkpoints experience higher traffic volumes.

CATSA continues to strive to offer the best possible experience to passengers at screening checkpoints across Canada by working collaboratively with industry partners such as airports and air carriers in order to limit the impact of external variables on screening operations and wait times.

#### **CATSA Plus**

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 the concepts of SMART security – an initiative of the Airports Council International (ACI).





## PBS TRANSFORMATION:



In order to improve the passenger experience and increase security effectiveness throughout the years, CATSA has implemented various enhancements to PBS checkpoints.

The first PBS checkpoints relied heavily on manual processes, and made use of limited technology and minimal space. Nevertheless, these techniques and technologies enabled CATSA to maintain aviation security, albeit with lower passenger throughput.

Over time, CATSA introduced improvements in processes, checkpoint construction, and critical new technological elements such as the FBS and CATSA Plus lines. Outmoded technologies have been upgraded, new tools put in place, and cumbersome manual processes replaced with streamlined automation.

Screening officers now have the space, tools, and resources required to maximize security effectiveness, all while improving the passenger experience at PBS checkpoints.



### PREVIOUS ANNUAL REPORTS



2007



2008



2009



2010





### Boarding Pass Security System (BPSS) Handheld Scanners

CATSA's Boarding Pass Security System (BPSS) enables electronic scanning of boarding passes at PBS checkpoints to ensure their validity and to 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 an instrumental tool for strategic decision-making and the daily management of CATSA's operations across Canada.

In 2019/20, after almost ten (10) years of usage, CATSA replaced two key pieces of BPSS hardware with newer, more responsive technology. Over two hundred (200) touch screen monitors were replaced and over one hundred eighty (180) new Android-based handheld scanners were deployed, which are half the weight and size of the previous model. The feedback from screening officers was overwhelmingly positive following the implementation of these improvements.

### Cost Recovery

Bill C-49, the *Transportation Modernization Act*, introduced authorities allowing CATSA to provide supplemental screening services, so long as the provision of these services remains cost neutral. Based on this authority, CATSA provided additional screening services to the Greater Toronto Airports Authority (GTAA) on a cost-recovery basis. The objective of this ongoing agreement is to increase screening capacity and improve passenger wait times. CATSA and the GTAA extended their agreement to provide supplemental Pre-Board Screening services to the GTAA throughout the entirety of the 2019/20 fiscal year on a cost-recovery basis, and intends to continue with this type of agreement in the future.

### Other Designated Airports (ODA)

In 2019/20, CATSA entered into its inaugural cost recovery agreement with the District Municipality of Muskoka, which is classified as an ODA. CATSA's Service Delivery and Technology branches worked together to fulfill all equipment and technology requirements prior to the first scheduled flight, which took place on June 27, 2019.

CATSA provided screening services for twenty (20) flights over the course of ten (10) weeks. This first cost recovery agreement with an ODA was extremely successful, and CATSA intends to continue with these types of agreements with the District Municipality of Muskoka and any other interested parties in the future.

### PBS Innovations

Aviation security is an ever-evolving and changing landscape. In order to ensure that CATSA and its screening workforce can mitigate security threats, the organization works continuously to improve upon its PBS processes. In 2019/20, CATSA conducted studies, developed new analytical models, and trialed new technologies that could help maintain security effectiveness in an evolving security landscape.

### Process Time Study

CATSA conducted a national study to collect and analyze PBS process times, search rates, and other attributes of security screening processes at twelve (12) checkpoints across five (5) Class I airports. These studies allow CATSA to understand differences across checkpoints and seasons, identify opportunities for improvement, and feed simulation models used to support decision-making.

### PREVIOUS ANNUAL REPORTS



2011



2012



2013







### Development of Analytical Models

In 2019/20, CATSA continued to build upon and better leverage advanced analytics to derive insights from data, support decision-making, and solve business problems.

- Using specialized software, data obtained from screening equipment, and data collected through process time studies, CATSA created detailed PBS simulation models to assess the impact of new procedures at Trusted Traveller screening lines. These simulations allowed CATSA to determine expected performance impacts when applying these new procedures at both CATSA Plus and legacy screening lines.
- CATSA enhanced its Wait Time Impact Model to include select Class II airports and leveraged the output of the model to assess the amount of screening hours required to achieve various wait time service levels at applicable airports.
- CATSA enhanced its traffic forecasting model, which predicts the number of passengers expected at Class I airport checkpoints per day and per hour. CATSA used output from this model to develop preparedness plans, which better enabled the organization to manage screening operations during peak travel periods such as spring break, summer, and winter holidays.

### Trusted Traveller Pre-Check Trial

This year, CATSA and Transport Canada collaborated to develop and conduct a trial at a domestic checkpoint to gain further insight into the benefits of risk-based screening at Trusted Traveller lines – an approach that would be more in line with the screening approach in the TSA’s Pre-Check program.

A multi-phased trial began on September 30, 2019 at Vancouver International Airport, which expands the rules of the existing Trusted Traveller program, and assesses different equipment and procedural changes.

Data collected during this trial will permit CATSA and Transport Canada to determine whether this concept could be a viable permanent enhancement to the existing Trusted Traveller program.

### Computed Tomography Scanners at PBS

This year CATSA completed a trial of new computed tomography (CT) equipment for the PBS environment. This type of technology, which CATSA currently uses exclusively for checked baggage in Canada, could revolutionize the next generation PBS X-ray deployment. CT technology at PBS is expected to facilitate passenger divestiture by allowing more items to remain inside baggage and, with future upgrades, could provide a first exploration of automated decision making at PBS checkpoints.

The trial was conducted at the domestic checkpoint of the Winnipeg James Armstrong Richardson International Airport and ran for close to five (5) months, with over 88,500 bins screened. CATSA conducted a review of CT technology requirements in the screening environment, and developed screening officer training materials prior to the commencement of the trial.

The trial was successful and provided insightful technical and operational data that will help shape future trials and evaluations of this type of technology as it continues to mature. This will include testing the machines on a CATSA Plus line.

### Quick Personnel Security Scanner

CATSA conducted a trial of the Quick Personnel Security Scanner (QPS201) at the Ottawa MacDonald-Cartier International Airport in fiscal year 2019/20. QPS201 is a type of FBS technology that CATSA trialed as a method of secondary screening.

Some key differences between the QPS201 and other FBS technologies include the construction of the machine itself (two parallel panels as opposed to a circular scanning unit), and the positioning of passengers once inside.

The trial demonstrated that the QPS201 could meet CATSA’s operational requirements for the secondary screening of passengers. Overall, screening officers reported that it is easy to use and facilitated the performance of their duties.

### X-ray Tutor Upgrade

CATSA upgraded all X-ray Tutor (XRT) technologies from XRT 3 to XRT 4 this fiscal year. XRT 3 CATSA Information Technology (IT) infrastructure was replaced as per CATSA’s life cycle management program. CATSA deployed XRT 4 IT infrastructure nationwide on September 30, 2019.







### Hold Baggage Screening (HBS)

The 10-year HBS Recapitalization Program started in fiscal year 2011/12, and its objective was to see CATSA migrate from a 5-level process to a more streamlined 3-level process, all the while maintaining international equivalency, and resolving issues with baggage connecting to the U.S. at pre-clearance facilities.

The HBS Recapitalization Program is comprised of forty-five (45) airport projects; with thirty-five (35) live projects, and ten (10) ongoing. The program will help CATSA maintain the standards that it sets for aviation security, as well as helping the organization to maintain parity with our international and industry partners.

This year alone, CATSA has completed projects at eight (8) airports, including:

- Vancouver International Airport;
- Winnipeg James Armstrong Richardson International Airport;
- Saskatoon John G. Diefenbaker International Airport;
- John C. Munro Hamilton International Airport;
- London International Airport;
- Yellowknife Airport;
- Billy Bishop Toronto City Airport; and
- Windsor International Airport.

Ten (10) more projects were planned to be completed in the final year of the program (2020/21) at Greater Moncton Roméo LeBlanc Airport, St. John's International Airport, Thunder Bay International Airport, Abbotsford International Airport, Montreal Trudeau International Airport, and Toronto Pearson International Airport, and two (2) projects at Vancouver International Airport. However, CATSA expects delays to the scheduled go-live dates as a result of the COVID-19 pandemic.



### Non-Passenger Screening (NPS)

NPS ensures the security of sterile areas of the airport through the screening of CATSA personnel, screening officers, flight and cabin crews, airline customer service personnel, baggage handlers, vendors and other airport employees, as well as the belongings of these individuals.

#### NPS eGate Trial

The NPS eGate trial is intended to improve care and control in the selection process for screening non-passengers at an NPS Terminal checkpoint. An eGate was installed at the Montreal Trudeau International Airport and outfitted with a Restricted Access Identity Card (RAIC) reader and customized software that permits random selection of non-passengers for screening.

During the trial, non-passengers tap their RAICs on the reader, and are either selected or not selected for screening, with the eGate serving as a physical barrier that grants passage only to those not selected. Although the trial is still ongoing, preliminary data is demonstrating that the solution is working as intended, and care and control has been enhanced as desired. Non-passengers have quickly adapted to the new process.

CATSA will continue the trial until completion in the first quarter of 2020/21, and will collect additional data, which will help the organization determine whether this is a viable solution for broader deployment in Canadian airports.

#### Restricted Area Identity Card (RAIC)

CATSA and airport authorities continue to collaborate to maintain the effective, efficient, and consistent operation of the RAIC program.

In 2019/20, CATSA completed the design and development of the next generation RAIC Enrolment System (ES). This new system will simplify and improve airport worker enrolment in the RAIC program and provide airport authorities with better tools for data management. In January 2020, CATSA initiated operational trials at both a Class I and a Class II RAIC airport, Winnipeg and St. John's, respectively.

CATSA also reviewed and updated the business continuity plan for the RAIC System to ensure it continued to meet the regulatory requirements set by Transport Canada.





### CATSA's Response to COVID-19

This year, the world faced a global challenge as a result of the spread of the novel coronavirus, known as COVID-19. The World Health Organization (WHO) declared a pandemic on March 11, 2020, as the virus spread globally, affecting many individuals, communities, nations and industries.

The aviation industry, including CATSA, was greatly impacted by the COVID-19 pandemic. Canadian airports experienced a drastic decrease in passenger traffic in March, 2020. It is expected that the impacts of this pandemic are likely to be felt for the foreseeable future, as the situation continues to evolve.

Prioritizing the safety of the travelling public, the screening workforce and CATSA personnel, the organization swiftly implemented several measures in response to the pandemic. CATSA will continue to monitor and adhere to the recommendations of public health officials as the situation evolves.

#### Screening Operations

As a response to COVID-19, the Government of Canada imposed a number of restrictions which resulted in a reduction in passenger volumes. During this time, CATSA continued to deliver on its core mandate, adjusting procedures for screening operations as needed.

CATSA worked with screening contractors and vendors in an effort to support screening officers in the delivery of screening services while prioritizing health and safety for all. CATSA provided an increased quantity of sanitation supplies such as hand sanitizer, disposable gloves, isopropyl alcohol spray and alcohol-based cleaning wipes at PBS checkpoints. CATSA also increased the frequency of cleaning at PBS checkpoints.

The professionalism and dedication displayed by front-line personnel and screening officers at our checkpoints enabled CATSA to maintain its screening operations during this challenging time.

#### Passenger Impact

In response to the pandemic, and in order to continue to promote the well-being of screening officers as well as those individuals working in and/or travelling through Canadian airports, CATSA implemented a number of changes at PBS checkpoints, including:

- Procedural changes intended to reduce contact between screening officers and passengers;
- Passengers were permitted to carry one (1) bottle of hand sanitizer (volume up to 350ml) in addition to the 100ml bottles, provided the bottles were placed in a clear re-sealable bag (volume of 1L); and
- Additional hand sanitizing units were placed by the checkpoints for use by screening officers and the travelling public.

#### Employee Impact

CATSA implemented several measures to ensure the health and safety of all personnel, either at headquarters in Ottawa or in the various regional offices. The organization monitored, and reinforced with its employees, all directives from the Public Health Agency of Canada (PHAC) and Global Affairs Canada (GAC). Throughout the pandemic, the organization remained committed to minimizing the risks associated with COVID-19.

### CATSA in the Community

#### Engagement with Indigenous Elders

CATSA has embarked on a multi-year engagement with Indigenous Elders to enable the organization to consider the impact of security screening on Indigenous communities. This engagement will ultimately inform changes to CATSA's screening procedures for sacred items, and include training on Indigenous history for screening officers, supervisors and CATSA personnel.

The focus of this procedural review and training is to enhance the level of service offered to Indigenous travellers and to build a broader understanding and appreciation of diverse Indigenous backgrounds, experiences, cultural values and traditions among the screening workforce. CATSA personnel and screening contractor management will be required to complete the training.

CATSA's commitment to continuous and meaningful engagement with Indigenous Elders has led the organization to becoming a member of a federal community of practice that is focused on sharing information and best practices with other government agencies and departments.



### Public Engagement

Throughout the year, CATSA was involved in several initiatives aimed at assisting passengers with autism and special needs, demonstrating its commitment to customer service and simply lending a helping hand where needed.

#### Autism and Special Needs:

CATSA participated in many initiatives aimed at facilitating air travel for passengers with autism and/or special needs.

The 7<sup>th</sup> Annual Airport Familiarization Day was held on April 7, 2019 at the Montreal Trudeau International Airport, in collaboration with CATSA, the Canada Border Services Agency (CBSA) and Air Transat. The goal of this event is to help children with Autism Spectrum Disorders (ASD) or functional limitations (intellectual disabilities) and their families become acquainted with the process of air travel. More than three hundred (300) participants were able to experience:

- check-in;
- security screening at a dedicated family and special needs screening line;
- aircraft boarding; and
- a visit to Canadian customs.

CATSA also supported similar events at airports in North Bay, Vancouver, Halifax, and Toronto. In North Bay, CATSA, the Jack Garland Airport Authority, and the Autism Services team at Hands<sup>3</sup> worked to provide exposure and practice of airport routines.

CATSA and Garda teams also participated in Open Skies for Autism, which took place at Toronto Terminal 1 in December 2019. Open Skies for Autism is a simulated airport and flight experience designed to help children and adults on the spectrum, as well as their families, familiarize themselves with the entire travel process.

#### Real People Series Launch

The *Real People Series* is a campaign highlighting screening officers. On April 30, 2019, CATSA officially launched the campaign with a Facebook Live event simultaneously held at Vancouver and Halifax international airports.

That same day, the first eight (8) posters of the series were unveiled to the public at each Class I airport.

The launch featured the Vice-President, Service Delivery, the Directors of Service Delivery for Pacific and East regions, and the screening officers profiled at those airports.

This multimedia campaign was rolled out throughout FY 2019/20, and it features pull-up banners at PBS checkpoints, as well as videos and profiles of screening officers on CATSA's social media channels and website.

<sup>3</sup> Hands is an organization dedicated to helping children, youth, and adults with developmental disabilities, as well as their families, achieve the best possible care and help they need.

## SHOWCASING OUR SCREENING OFFICERS:

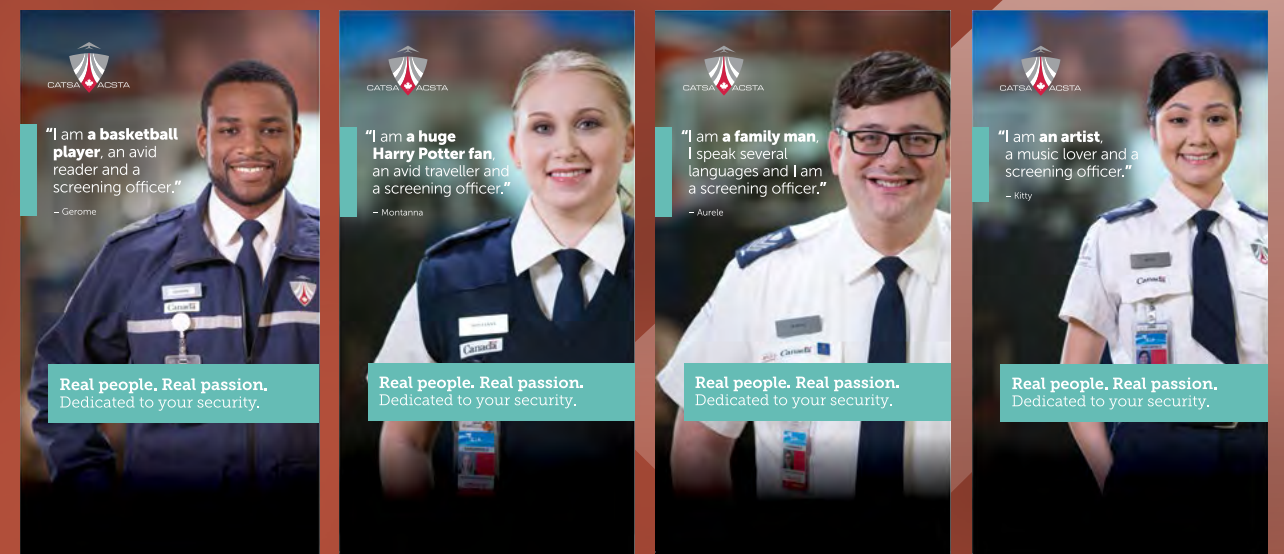


The *Real People Series* campaign featured larger-than-life banners of screening officers at each of Canada's eight busiest airports, as well as videos and images on CATSA's social-media channels and website.

In total, forty-eight (48) officers were featured in the campaign – six (6) from each airport. The campaign's overall message was simple and clear: "Real people. Real passion. Dedicated to your security." The campaign ran for the duration of the fiscal year, with new videos, banners and social media posts released every two months. The campaign was featured on CATSA's facebook and Twitter feeds, as well as a dedicated page on the organization's website.



CATSA is grateful to the forty-eight (48) screening officers who participated in this campaign, as well as to the airport authorities and screening contractors for their support. Without them, we would have been unable to showcase some of the incredible people in the screening workforce.







### Lost and Found

CATSA's Security Operations Centre (SOC) helped to recover many lost passenger items this fiscal year.

From travel and everyday essentials, to electronics and jewelry, the SOC helped return 6,091 items with a total value of \$3.85 million.

## CATSA AND OUR PARTNERS

### Government of Canada

CATSA is an agent Crown corporation with a Board of Directors appointed by the Governor in Council based on the recommendation of the Minister of Transport. CATSA reports to Parliament through the Minister of Transport and works with Transport Canada to ensure regulatory compliance.

In this year's mandate letter, Minister of Transport, the Honourable Marc Garneau was charged with completing the transfer of CATSA to an independent not-for-profit entity that will improve the passenger experience, including a clear service standard to limit the amount of time travellers wait at airport security checkpoints. CATSA will continue to work with the Government of Canada to meet its objectives.

### Transportation 2030: A Strategic Plan for the Future of Canada's Transportation System

The Government of Canada has developed a vision and long-term plan to build a national transportation system that supports "economic growth, job creation and Canada's middle class". This plan, *Transportation 2030*, sets out five (5) broad goal themes, three (3) of which have significant implications for CATSA and its role in safe and efficient air passenger travel. These themes include:

1. *The Passenger*—providing greater choice, better service, lower costs and enhanced rights;
2. *Safer Transportation*—harmonizing global standards, consulting with industry, and contributing to enhanced safety and security; and
3. *Green and Innovative Transportation*—embracing new technologies, supporting innovation, and focusing on trade corridors and shared ways of moving goods and people.

### Transparency and Open Government

CATSA proactively maintains a comprehensive public information and awareness program, both with the public and with the Government of Canada, in accordance with the Government of Canada's commitment to "set a higher bar for openness and transparency."

In order to maintain transparency and openness with the public, CATSA shares its wait times, and publishes critical bulletins, information materials, and periodic reports on CATSA policies, procedures and evolving issues. CATSA also conducts quarterly traveller surveys, hosts an information website with mechanisms for public and stakeholder enquiries and feedback, and participates in active consultations with industry, passengers and other stakeholders in an effort to engage with travellers in a meaningful way, and ultimately enhance the passenger experience.

In order to remain accountable and maintain transparency with the Government of Canada, CATSA holds an annual public meeting, and its annual reports are tabled in Parliament. CATSA also provides responses to enquiries and requests for information from parliamentary committees, and other governmental and parliamentary authorities.

## TRANSPORTATION SECURITY ADMINISTRATION (TSA)

As part of the *"Beyond the Border Action Plan"*, Canada and the United States have endeavoured to achieve harmonization in screening procedures at airports with U.S. Customs Pre-clearance. Continued harmonization should ensure that screening operations on both sides of the border provide a comparable level of security, as well as a common passenger experience for all travellers.

Over the past year, CATSA has implemented new screening requirements at the request of the U.S. TSA, and has tested others for potential implementation in a Canadian context. CATSA has also started a trial of new Trusted Traveller procedures that are more closely aligned with the TSA's risk-based screening approach at Pre-Check lines.

### TSA Accessible Property Bag Search

In collaboration with Transport Canada and the TSA, CATSA has undertaken two trials to assess TSA carry-on baggage screening procedures in the Canadian environment. The changes include divesting all electronics larger than a cell phone, and enhanced procedures for X-ray analysis and bag search.

The first trial concluded at the Ottawa McDonald-Cartier International Airport in August 2019. The second trial took place at the Calgary International Airport at a CATSA Plus checkpoint and concluded in February 2020. Results from these trials will be assessed in order to make decisions about potential changes to security screening in the future.







## LOOKING AHEAD

### RECOVERY EFFORTS

The effects of the COVID-19 pandemic impacted CATSA at security screening checkpoints, and in the organization's headquarters and regional offices. As communities and industries around the world work towards reopening and rebuilding, CATSA will work closely with Transport Canada and its industry partners to support recovery efforts. The organization will continue to prioritize the health and safety of passengers, screening personnel, non-passengers, and its employees all over the country.

### CATSA'S GOVERNANCE

This year, CATSA is preparing for a potential major change – the transition from an agent Crown corporation funded by parliamentary appropriations to an independent not-for-profit entity. This potential transition represents a shift in the way that CATSA conducts business, and as such, the organization has been working hard to prepare for this change.

CATSA's employees and management team are all working together to meet our objectives and achieve the common goal of a seamless transition.

### OUR PEOPLE, OUR EVOLUTION

#### *Transition Charter*

This year, CATSA managers and employees developed a Transition Charter. The charter outlines the positive approach identified as a key element to model during the potential transition.

#### Managers

As CATSA prepares for a potential transition to a new DSA, managers recognized that leadership is critical to the success of the transition. To support its employees and the organization as a whole, managers have defined how they want to lead, and which behaviours and values they should model during this time of transition.

Values for CATSA managers:

- exhibit positive leadership;
- ensure effective communication; and
- support employees.

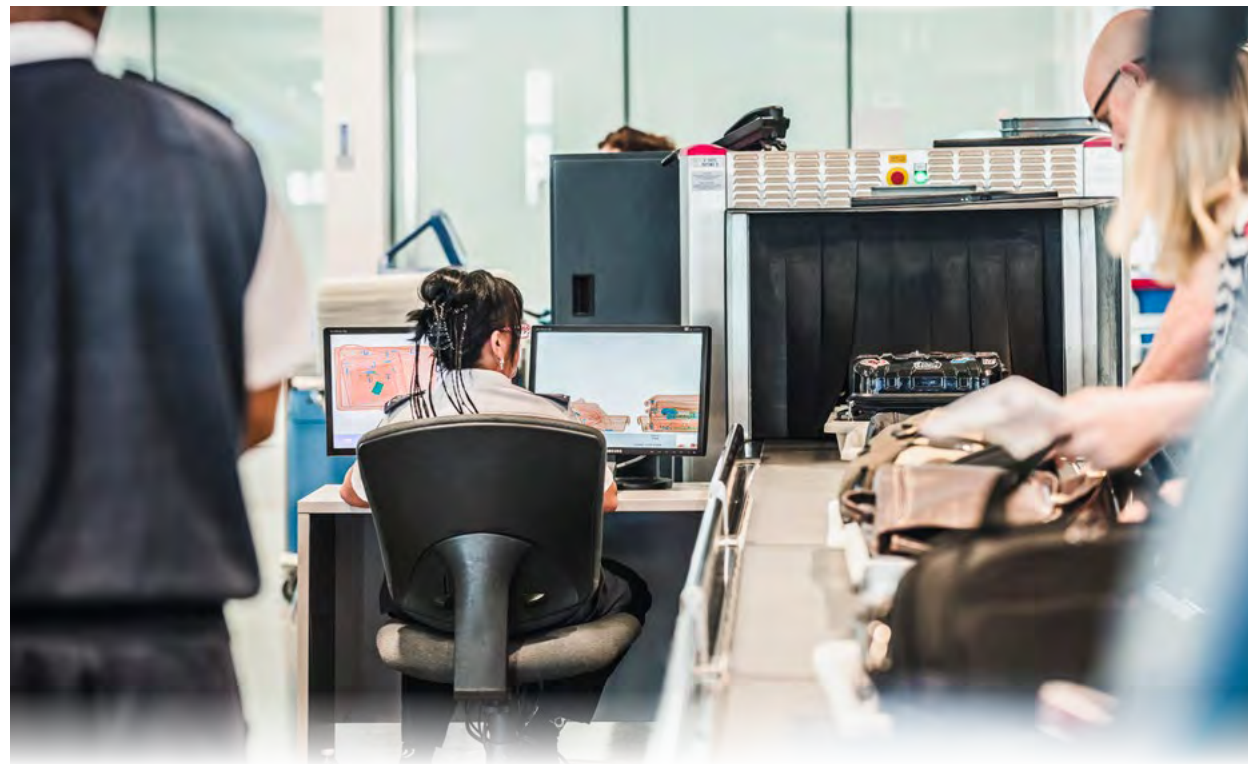
#### Employees

As CATSA prepares for a potential move to a new DSA, employees will continue to demonstrate professionalism and take pride in their work as they respond to and support the needs of their colleagues, managers, the travelling public, and the aviation industry. They will work together to sustain our operations and to find effective solutions when called upon during the potential transition.

Values for CATSA employees:

- be positive;
- play their part in effective communication; and
- support others.





### CATSA PLUS DEPLOYMENTS

Looking to the future, CATSA will continue to upgrade software and make operational and technical enhancements to the CATSA Plus system based on data, analysis and trials.

CATSA Plus continues to provide passengers with an enhanced security screening experience. It is a highly effective security screening system that allows seasoned travellers the ability to bypass those who need, or prefer, to take more time during screening, thereby improving overall passenger flow and satisfaction.

### INCIDENT RESPONSE, MODERNIZED

#### Security Operations Centre (SOC)

The SOC is CATSA's primary hub for incident response. SOC operators provide critical assistance to screening officers and law enforcement. Their invaluable contribution enables CATSA to secure the air transportation system at designated airports in Canada.

#### *SOC Transformation*

The SOC is undergoing a major transformation in order to ensure that its operators and team leaders can provide the best service and perform their duties with utmost consistency. Additionally, SOC personnel will be provided with more career and development opportunities.



## SECURITY MODERNIZED:



The SOC is CATSA's hub for incident response. SOC operators help to resolve security breaches, locate lost or stolen items, and ultimately serve a critical role in maintaining the security of the Canadian aviation system. In an environment where threats are ever-evolving, incident response techniques and tools must also evolve.

To that end, over the last few years, the SOC has been equipped with a new video wall, and new operator workstations. These upgrades allow operators to improve upon their already stellar performance, and help ensure the security and satisfaction of passengers travelling through Canadian airports.







## RISK LANDSCAPE

As a key member of the Canadian civil aviation security system, CATSA is exposed to a variety of risks that may affect the organization’s ability to fulfill its mandate. Transport Canada mandates specific responses to aviation security threats and risks. CATSA implements these mandated risk responses in an effort to minimize the impact of risks on its operations and the travelling public.

In addition to intelligence-related threat information overseen by Transport Canada, CATSA conducts various risk assessments pertaining to its corporate strategies and operations. CATSA presents key corporate and operational risks in its annual Enterprise Risk Management Profile (ERM-P), which is an overview of the risks that could impede the organization’s ability to reach its strategic objectives. CATSA’s management and the Board of Directors pay closest attention to those risks related to the effectiveness of screening, as security is CATSA’s top priority.

### RISKS AND UNCERTAINTIES

#### Mandated Services Risk

##### *Detection Capability*

Aviation security is CATSA’s top priority. The primary mechanism by which CATSA maintains aviation security is through the use of screening equipment. Transport Canada sets detection standards and approves screening equipment.

While CATSA endeavours to meet detection standards set by Transport Canada, there is a risk that CATSA may not have the technology, nor the threat and risk information, processes or human factor capability to detect all high-risk threat items or new and emerging threats, 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. Furthermore, CATSA’s positive relationships with Transport Canada and other international regulatory bodies allow greater information sharing, thereby enabling the organization to maintain equivalency with other international screening authorities.

#### PREVIOUS ANNUAL REPORTS



2014



2015



2016





### Capacity risk

#### *CATSA Staff Capacity*

While CATSA's streamlined corporate structure has made the organization leaner, there is a risk that CATSA's current staff capacity, in certain areas, may be inadequate to sustain workloads and to support a healthy work environment. To address this risk, the organization has implemented various human resources initiatives such as devoting more resources to talent acquisition and developing a simplified fixed-term resource request process. The organization will continue to monitor the impacts to staff capacity due to any additional operational requirements as a result of the organization's response to the COVID-19 pandemic.

### Service Delivery Through Third-Party Risk

#### *Legal or Illegal Labour Disruptions*

CATSA outsources its security screening services to contractors who rely on a unionized screening officer workforce to perform screening operations. Given the nature of the third-party service delivery model, CATSA has no direct role in labour relations and relies upon its screening contractors to establish collective bargaining agreements and manage labour relations with their unions. Due to the screening contractors' management of labour relations or labour market conditions, there is a risk that CATSA may have limited influence to prevent a legal or illegal labour disruption event from occurring or have limited ability to maintain service levels during a legal or illegal 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.

CATSA worked with Transport Canada, screening contractors, and other stakeholders to implement various mitigating safety measures in order to assuage any arising health and safety concerns as a result of the COVID-19 pandemic.

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 – dependence on outsourced screening services, equipment maintenance services, or major suppliers*

CATSA is fully dependent on screening contractors for the delivery of screening services, primarily dependent on outsourced maintenance service providers for the maintenance of screening equipment, and on major suppliers for screening equipment. There is a risk that CATSA's dependence on outsourced screening services, equipment maintenance services or major suppliers may result in negative service delivery impacts.



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. In addition, alternate maintenance arrangements are in place to ensure continuity of screening equipment maintenance services. CATSA has also implemented proactive measures in response to the COVID-19 pandemic, in order to maintain the screening officer workforce, and in turn, the viability of screening contractors. CATSA continues to monitor and address impacts to its supply chain.

### Stakeholder Relations

There is a risk that CATSA may encounter events which the organization is not able to effectively manage, which may cause damage to its reputation with its stakeholders, resulting in loss of public trust in CATSA or potential increase in complaints.

To address this risk, CATSA continues to improve the passenger experience by promoting a customer service-oriented culture. CATSA liaises with industry stakeholders on a regular basis, 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.

### Information Technology Risk

#### Cyber Attacks on IT Infrastructure

Due to the evolving nature of the cyber threat environment, there is a risk that cyber threats and/or attacks may negatively affect 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 continues to expand and modernize a variety of devices, systems, processes and procedures to safeguard the organization's information and IT infrastructure.

### Human Resources Risk

#### Employee Recruitment and Retention

Due to labour market conditions for talent or due to CATSA's overall corporate human resources strategies, there is a risk that the organization may experience challenges in recruiting and/or retaining key and/or specialized talent resulting in a potential loss of corporate memory and/or a decrease in overall corporate performance. To address this risk, CATSA has implemented a number of initiatives to ensure there are competitive total compensation packages and has expanded its recruitment strategies to include specialized advertising for unique or key talent. As well, the organization has also implemented initiatives to retain talent including its talent management and management development programs. The organization has also implemented a Diversity and Inclusion Framework, which aims to integrate diversity and inclusion values and practices into existing corporate processes.



### Transition Risk

#### Seamless Transition/Transfer

In Budget 2019, the Government of Canada 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 by introducing the *Security Screening Services Commercialization Act* which received Royal Assent on June 21, 2019. CATSA will continue to provide excellent screening services until this transfer occurs.

The timing of this transfer is subject to negotiations, in which CATSA is playing a supporting role. In light of some inherent uncertainty around the specific timing of this transfer, there are some potential related risks that could create challenges for CATSA, such as those around planned budgets and activities. CATSA is addressing this risk by continuing to pro-actively plan, assess and advise Transport Canada on the various business impacts related to the potential transfer.



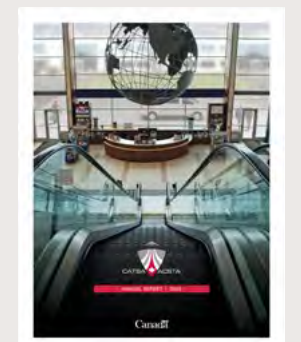
### PREVIOUS ANNUAL REPORTS



2017



2018



2019





## CORPORATE SERVICES

### HEALTHY WORKPLACE, ENGAGED EMPLOYEES AND PROACTIVE LEADERSHIP

#### Diversity, Inclusion, Employment Equity

CATSA is deeply committed to supporting the Government of Canada's objectives to build a workforce that reflects the diversity of Canada's population. To that end, CATSA's *Employment Equity Plan 2018-2021: Securing a Culture of Inclusion* sets out CATSA's employment equity goals, commitments, and performance measures. The *Employment Equity Plan* emphasizes increasing internal representation of designated population groups, and of all genders, through hiring, talent and career development, and promotion. These efforts, complemented by CATSA's *Code of Ethics, Conduct and Conflict of Interest*, are designed to foster and reinforce a safe, respectful and welcoming work environment for all.

CATSA's commitments to diversity, inclusion, and employment equity are also supported by the adoption of workplace policies and practices that ensure employees from diverse backgrounds have access to reasonable accommodation of their diverse values and traditions.

Progress towards meeting diversity and employment equity goals is actively measured, monitored and evaluated. CATSA produces and submits an annual report on its fulfillment of the *Employment Equity Act* and the *Canadian Multiculturalism Act*. An internal CATSA Diversity and Inclusion Network has been created to guide CATSA in the identification and elimination of barriers to equal employment and to continue to foster an inclusive and diverse culture.

#### Gender-Based Analysis Plus

CATSA completed a Gender-Based Analysis Plus assessment to examine any differential impacts on men and women, as well as any potential opportunities to advance gender-based objectives in both the air traveller base, CATSA workforce and amongst screening officers who are employed by CATSA's screening contractors.

The security screening procedures followed by CATSA are to treat all travellers, regardless of gender or gender identity, equally. Nevertheless, CATSA is sensitive to the different impacts that screening procedures can have on men, women and the transgender community, and takes steps to ensure all travellers feel respected and safe throughout the screening process. This includes ensuring same-sex physical searches and providing accommodation when requested.

As reported in CATSA's 2018 Employment Equity Report, women represented 44% of CATSA's indeterminate workforce, which represents a slight decline in representation from 44.3% in 2017. However, women also represented 62.5% of all newly hired indeterminate employees.

#### RECRUITMENT AND RETENTION

CATSA faces the same recruitment challenges as other employers in Canada, and actively seeks to understand the issues that might affect employee attraction, retention and engagement.

CATSA conducted another triennial employee survey for fiscal year 2017/18. The results of this survey were presented to CATSA's Senior Management and its Board of Directors in May and June 2018, respectively. Based on the results, a work plan that is aligned with the strategic objectives and insight gained from employee focus groups was presented to the Board of Directors in February 2019. The results from the survey as well as the focus groups have proven that the programs implemented as a result of the 2015 culture survey are having an impact. The key themes found within the work plan included:

- developing and implementing an internal communications strategy;
- promoting and supporting the use of official languages in the workplace;
- implementing human resources practices that support diversity in hiring and advancement; and
- focusing on policies and practices that encourage and support individual growth and sense of worth as valued employees and continue to set expectations for leaders through the Management Development Program and the Leaders' Forum.





# 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	2017/18	2018/19	2019/20	Comments
<b>Screening officer attrition levels</b>	20.0%	18.0%	19.8%	20.3%	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.

Performance measure	Target	2017/18	2018/19	2019/20	Comments
<b>PBS optimal throughput</b>	N/A*	180	197	217	Deployment of additional CATSA Plus lines and innovative screening efficiencies 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	2017/18	2018/19	2019/20	Comments
<b>Security screening compliance</b>	98.0%	95.4%	95.3%	95.3%	Overall, CATSA achieved security screening compliance results in 2019/20 that are consistent with results from the past two years. CATSA continues 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 (explosive trace detection (ETD), hand-held metal detector (HHMD), walk-through metal detector (WTMD) and X-ray) and screening techniques (physical search of persons and bags).

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

Performance measure	Target	2017/18	2018/19	2019/20	Comments
<b>National Training and Certification Program (NTCP) success rate</b>	90.0%	87.7%	86.4%	85.0%	The NTCP success rate comprises results from SOF, EDX and CT training courses. Overall, the NTCP success rate was 85%, down 1.4 percentage points from the previous year. Training volumes remained consistent, with 2,165 training attempts this year, compared to 2,166 attempts 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	2017/18	2018/19	2019/20	Comments
<b>Confidence in security screening</b>	75.0%	80.0%	83.3%	83.7%	Confidence in CATSA security screening in 2019/20 remained high and virtually unchanged since last year, maintaining above target performance (75%) for the fourth consecutive year.

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

Performance measure	Target	2017/18	2018/19	2019/20	Comments
<b>Satisfaction with overall screening experience</b>	85.0%	86.0%	87.3%	87.0%	Overall satisfaction with security screening remained above target (85%) and in line with last year's performance.

*Definition:* The percentage of passengers surveyed who express satisfaction with their overall experience with security screening at select busiest airports.

Performance measure	Target	2017/18	2018/19	2019/20	Comments
<b>Customer Satisfaction Index</b>	85.0%	84.3%	88.3%	88.5%	Customer Satisfaction Index score remained high in 2019/20, and is virtually unchanged since last year.

*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.





# CORPORATE GOVERNANCE

CATSA is accountable to Parliament through the Minister of Transport and is governed by an eleven (11)-member Board of Directors appointed by the Governor in Council. Two (2) of the Directors are nominated by the airline industry and two (2) 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 CATSA's strategic direction through its annual Corporate Plan and safeguarding the resources of the Corporation by approving Annual Reports, capital and operating budgets, and major new project proposals.

As of March 31, 2020, 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

In 2019/20, 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 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. Two (2) standing committees assist the Board in discharging its responsibilities: the Audit Committee and the Governance, Human Resources and Pension Committee. An additional sub-committee of the Board, the Transaction Committee, was established this year in order to assist CATSA with respect to the proposed sale or disposition of the Authority's assets and liabilities to the designated screening authority (initially incorporated as "DSA Corporation") as contemplated in the *Security Screening Services Commercialization Act* (the "Transaction").

The Board oversaw the completion of the first CATSA Plus checkpoints in Edmonton and Halifax, the two newest airports to feature this high-performance system.

## Annual Public Meeting

On February 12, 2020, CATSA hosted its Annual Public Meeting. During the meeting, CATSA's Chairperson, Marguerite Nadeau, thanked departing Board member Raf Souccar for the dedication and guidance he provided to CATSA during his tenure. In addition, she welcomed Penny Westman to the Board. She highlighted one of CATSA's major initiatives for 2019, the Government of Canada's announcement that CATSA's assets and liabilities will be sold to a private not-for-profit entity, and subsequent passed legislation to make it happen. In the past year, CATSA's Board of Directors has worked hard to support transition planning and activities with the creation of the Transaction Committee. The Committee is responsible for evaluating information related to this process and to advise the Board as a whole as we move forward.

## 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 2019/20, the Board committees met a total of 19 times and the Board in its entirety met a total of 8 times.



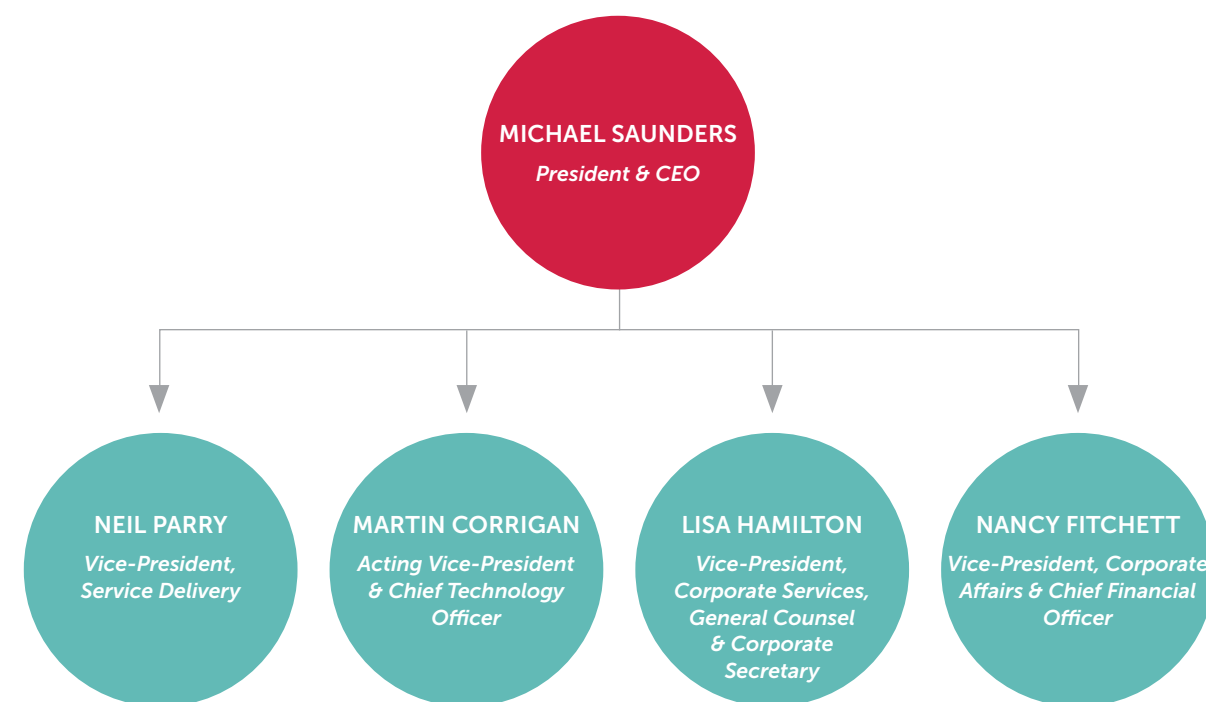
Board Member	Total Remuneration	Board Meetings	Committee Meetings
Nadeau, Marguerite (Chairperson)	\$28,860	8/8	19/19
Brunet, Jean-Philippe	\$15,150	7/8	11/13
Coulson, Melissa	\$15,735	8/8	19/19
Duggan, Sharon	\$16,710	8/8	19/19
Kennedy, Patricia	\$17,880	8/8	8/8
Lalonde, Gilles	\$18,075	8/8	6/6
Noormohamed, Taleeb <i>*Leave of Absence August 13 to October 22, 2019</i>	\$11,946	5/8	12/14
Restall, William	\$15,735	8/8	6/6
Rowe, Allan	\$14,175	8/8	6/6
Trenn, Diane	\$13,980	8/8	6/6
Westman, Penny	\$21,390	8/8	15/15

Total remuneration (annual retainer and per diems) paid to directors and the Chairperson was \$189,636 in 2019/20, compared to \$182,475 in 2018/19.



### CATSA Management Team

CATSA is led by President and CEO Michael Saunders, on an interim basis until April 3, 2021, or until a permanent appointment is made by the Government of Canada. The CEO is supported by a senior management team, as shown below:



### DISCLOSURE

#### Report of CATSA's Official Languages Act (OLA) Requirement

Under Part IV of the OLA, CATSA is required to provide screening services to the travelling public in both official languages at airports with one million or more passengers, and at airports where there is a significant demand for services in the minority language.

In an effort towards continuous improvement, CATSA surveys passengers across the country on a quarterly basis to verify if they were served in their preferred language. Survey results, along with compliance measurement reports and complaints, are analyzed and used to improve front-line performance.

CATSA remains committed to promoting a bilingual work environment. CATSA continues to remind its employees nationwide that promoting an inclusive, bilingual culture in the workplace is a team effort.

#### Report of 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.



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

As with all federal departments and agencies, CATSA's policies, programs and projects are subject to the provisions of the *Impact Assessment Act*, previously the *Environmental Assessment Act*. While recent mandatory scans of CATSA projects have concluded that there are no significant environmental impacts that warrant in-depth environmental assessments, CATSA will continue to scan future initiatives to determine if they have anticipated impacts that require further assessment and mitigation. Beyond that, as a responsible agency of the Crown, CATSA maintains high standards for its own sustainable practices, including such measures as:

- safe and responsible disposal of equipment at the end of its economic life;
- minimization of paper generation through heavy reliance on electronic data systems; and
- continued innovation to support safe and efficient personal and business travel and the recreation and tourism sectors of the economy.

### ***Accessible Canada Act***

The *Accessible Canada Act* came into force in 2019. CATSA continues to work with the CTA to ensure that CATSA would be prepared to meet the requirements once the associated regulations come into effect. During this process, it has become clear that CATSA is well positioned to meet the future regulations and in fact, has set the standard for delivery of accessible services to the public.

CATSA is now following the regulatory process for reporting requirements and accessibility plans, which is coordinated between the CTA (transportation) and Employment and Social Development Canada (workplace). These regulations are expected to be published in the coming year, with come-into-force dates a year beyond that.





# MANAGEMENT'S DISCUSSION AND ANALYSIS

for the year ended March 31, 2020



Management's Discussion and Analysis (MD&A) outlines CATSA's financial results and operational changes for the year ended March 31, 2020. This MD&A should be read in conjunction with CATSA's audited annual financial statements and accompanying notes for the year ended March 31, 2020, 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 17, 2020, 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.

## **GOVERNMENT FUNDING**

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.

Over the past several years, CATSA has received one-year incremental funding from the Government of Canada to supplement its base funding level in order to address increases in screening contractor billing rates and rising passenger volumes, as well as to deliver CATSA's enhanced Non-Passenger Screening program. In 2019/20, CATSA was granted incremental funding of \$288.3M through Budget 2019, which allowed CATSA to deliver its mandate and target a wait time service level of 85/15, where on average 85% of all passengers wait 15 minutes or less to be screened at Class I airports on an annual basis.

For 2020/21, CATSA anticipates receiving incremental funding of \$309.4M in addition of its base funding of \$562.7M, for a total funding envelope of \$872.1M, in order to continue delivering its mandated activities.



## IMPACTS OF COVID-19

In March 2020, in response to the COVID-19 pandemic, Governments around the world imposed a number of travel restrictions, which resulted in a significant reduction in passenger volumes at Canadian airports. The longevity and severity of the impacts of COVID-19 on the overall aviation industry remain unknown at this time.

CATSA is working closely with its screening contractors to ensure the health and safety of screening officers at airports and to maintain security effectiveness. CATSA is also committed to ensuring that the trained workforce remains ready to respond when travel restrictions are lifted.

As at March 31, 2020, CATSA experienced a significant reduction in passenger volumes, with very minimal impact to the 2019/20 financial results. The extent of the impact on future results cannot be estimated as the situation continues to evolve. CATSA will continue to monitor these impacts on its operations and business, and will adjust accordingly.

## FOREIGN EXCHANGE

The Canadian dollar declined slightly during 2019/20, with an average Canada-U.S. exchange rate of 0.75<sup>1</sup>, compared to an average exchange rate of 0.76<sup>1</sup> in 2018/19.

CATSA is exposed to foreign exchange risk, as it purchases a significant amount of equipment and services denominated in U.S. dollars. 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.

## 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.

<sup>1</sup> Bank of Canada, *Daily Exchange Rates Lookup*.

## 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 2019/20 compared to 2018/19.

Key Financial Highlights – Statement of Comprehensive Income (Loss)				
(Thousands of Canadian dollars)	2019/20	2018/19	\$ Variance	% Variance
<b>Expenses<sup>1</sup></b>				
Screening services and other related costs	\$ 626,446	\$ 594,293	\$ 32,153	5.4%
Equipment operating and maintenance	44,345	42,258	2,087	4.9%
Program support and corporate services	88,144	88,764	(620)	(0.7%)
Depreciation and amortization	71,861	64,151	7,710	12.0%
<b>Total expenses</b>	<b>830,796</b>	<b>789,466</b>	<b>41,330</b>	<b>5.2%</b>
<b>Other expenses (income)</b>	<b>2,850</b>	370	2,480	670.3%
<b>Financial performance before revenue and government funding</b>	<b>833,646</b>	<b>789,836</b>	<b>43,810</b>	<b>5.5%</b>
<b>Revenue</b>	<b>8,721</b>	12,714	(3,993)	(31.4%)
<b>Government funding</b>				
Parliamentary appropriations for operating expenses	742,138	704,049	38,089	5.4%
Amortization of deferred government funding related to capital expenditures	70,864	65,147	5,717	8.8%
Parliamentary appropriations for lease payments	3,936	–	3,936	N/M
<b>Total government funding</b>	<b>816,938</b>	769,196	47,742	6.2%
<b>Financial performance</b>	<b>\$ (7,987)</b>	\$ (7,926)	\$ (61)	(0.8%)
<b>Other comprehensive income</b>	<b>7,724</b>	6,760	964	14.3%
<b>Total comprehensive income (loss)</b>	<b>\$ (263)</b>	<b>\$ (1,166)</b>	<b>\$ 903</b>	<b>77.4%</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 12 of the audited annual financial statements for the year ended March 31, 2020.

N/M = not meaningful



### **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 81.2% of total expenses (excluding depreciation and amortization) in fiscal year 2019/20. 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.

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 \$32.2M (5.4%) in 2019/20. This is primarily due to an increase in screening hours purchased of approximately \$14.8M and annual screening contractor billing rate increases of approximately \$15.0M. The increase in screening hours purchased is the result of additional screening requirements across all programs to support operational changes at certain airports, and reflect the delivery of improved wait time service levels at Canada's busiest airports. These increases are partially offset by 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 \$2.1M (4.9%) in 2019/20. The increase is attributable to higher maintenance and spare parts costs of \$1.7M mainly associated with supporting existing Explosives Detection System (EDS) equipment coming off warranty and legacy EDS equipment approaching the end of its useful life.

### **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 that are not capitalized under IFRS 16, office and computer costs, and professional services.

Program support and corporate services costs decreased by \$0.6M (0.7%) in 2019/20. The decrease is mainly due to the adoption of a new International Financial Reporting Standard (IFRS), IFRS 16 *Leases*, which requires a portion of CATSA's rent costs to be reflected through the depreciation of its right-of-use asset. This resulted in lower rent and facilities costs of \$3.3M. The decrease is also attributable to lower network and telephony costs of \$1.1M. These decreases are partially offset by higher employee-related costs of \$2.9M, and other administrative costs. Employee-related costs increased mainly due to a greater number of staffed positions and increases in salary and benefit costs.

### **Depreciation and Amortization**

Depreciation of property and equipment, as well as amortization of intangible assets, is recognized on a straight-line basis over the estimated useful lives of the assets. Depreciation of right-of-use assets is recognized on a straight-line basis over the lease term.

Depreciation and amortization increased by \$7.7M (12.0%) in 2019/20. The increase is due to depreciation relating to new HBS equipment deployments as part of the HBS recapitalization program of \$8.3M and depreciation relating to new CATSA Plus deployments of \$1.4M. These increases were partially offset by a decrease of \$4.6M related to assets becoming fully depreciated or retired during the year. The increase is also due to the depreciation of right-of-use assets of \$3.7M due to the adoption of IFRS 16, which requires the depreciation of right-of-use assets in accordance with their respective lease terms.

### **Other Expenses (Income)**

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

Other expenses (income) increased by \$2.5M (670.3%) in 2019/20. The increase is mainly due to higher losses on the disposal and impairment of property and equipment, as well as higher finance costs.

### **Revenue**

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

Revenue decreased by \$4.0M (31.4%) in 2019/20. The decrease is primarily due to the provision of fewer supplemental screening hours, resulting from lower service requirements from the GTAA and the expiry of the trial agreement with the Vancouver International Airport Authority in June 2018.

### Government Funding

CATSA is funded by appropriations from the federal Consolidated Revenue Fund for operating and capital expenditures. Since the adoption of IFRS 16, a portion of CATSA's lease payments are funded through capital appropriations, as opposed to operating appropriations.

#### 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 \$38.1M (5.4%) in 2019/20. The increase is primarily due to increased spending for screening services and other related costs, and equipment operating and maintenance, 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 \$5.7M (8.8%) in 2019/20. The increase resulted from increased depreciation and amortization, excluding depreciation of right-of-use assets, as well as higher losses on the disposal and impairment of property and equipment, as previously discussed.

#### Parliamentary appropriations for lease payments

As a result of the adoption of IFRS 16, a portion of CATSA's lease payments are now funded through capital appropriations, as opposed to parliamentary appropriations for operating expenses. CATSA's lease payments are typically made in the same month that appropriations are received, therefore there is no deferred funding related to these appropriations.

### Other Comprehensive Income

Other comprehensive income consists of the net actuarial gains associated with CATSA's defined benefit plans. The 2019/20 net gain of \$7.7M is primarily due to an actuarial gain of \$28.3M related to changes in financial assumptions and experience adjustments, partially offset by a remeasurement loss of \$20.6M resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions.

In 2018/19, the net gain of \$6.8M was 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 was also attributable to an actuarial gain of \$3.1M related to experience adjustments and changes to demographic 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, 2020	March 31, 2019	\$ Variance
Cash	\$ 18,492	\$ 4,007	\$ 14,485
Trade and other receivables	142,313	145,490	3,177
Trade and other payables	(140,718)	(129,719)	(10,999)
Current portion of holdbacks	(16,367)	(12,433)	(3,934)
Current portion of lease liabilities	(3,548)	–	(3,548)
Non-current portion of holdbacks	(5,410)	(7,767)	2,357
Non-current portion of lease liabilities	(19,379)	–	(19,379)

Cash increased by \$14.5M primarily due to a slight delay in disbursements to suppliers for goods and services nearing March 31, due to temporary financial process adjustments related to COVID-19. Trade and other receivables decreased by \$3.2M primarily due to a decrease in sales taxes recoverable. Trade and other payables increased by \$11.0M as a result of the timing of disbursements associated with obligations outstanding with suppliers. Current holdbacks increased by \$3.9M while non-current holdbacks decreased by \$2.4M due to HBS recapitalization projects reclassified from non-current to current. Ongoing construction under the HBS recapitalization program added to the increase for current holdbacks and partially offset the decrease in non-current holdbacks. Current and non-current lease liabilities increased by \$3.5M and by \$19.4M, respectively, due to the adoption of IFRS 16.



## CAPITAL EXPENDITURES

CATSA's capital plan is comprised of EDS and non-EDS expenditures and a portion of lease payments.

EDS capital expenditures consist of the acquisition of screening equipment for PBS, HBS and NPS and the associated installation and integration costs. Non-EDS capital expenditures consist of the acquisition of equipment and systems to support screening operations, the RAIC program, and CATSA's network infrastructure and corporate management systems. Lease payments relate to the adoption of IFRS 16.

Property and equipment, intangible assets and right-of-use assets represent 74.0% of total assets as at March 31, 2020. In 2019/20, capital expenditures totalled \$104.1M. The section below provides a breakdown of the capital expenditures for EDS, non-EDS and lease payments, as well as an overview of the major capital projects undertaken over the course of the fiscal year.

Capital Expenditures			
(Thousands of Canadian dollars)	2019/20	2018/19	\$ Variance
EDS	\$ 91,829	\$ 103,613	\$ (11,784)
Non-EDS	8,310	8,003	307
Lease payments	3,936	–	3,936
<b>Total capital expenditures</b>	<b>\$ 104,075</b>	<b>\$ 111,616</b>	<b>\$ (7,541)</b>

### EDS

- Ongoing deployment of the three-level HBS system with Computed Tomography technology at several airports in support of the HBS Recapitalization Program; and
- Deployment of additional CATSA Plus lanes at Class I airports where CATSA Plus checkpoints already exist, and the purchase of equipment for the installation of a new CATSA Plus checkpoint at the Ottawa Macdonald Cartier International Airport planned for 2020/21.

### Non-EDS

- Ongoing development of a new Restricted Access Identity Card enrollment system as part of CATSA's life-cycle management program;
- Upgrade of the X-ray Tutor Learning system, a tool to improve overall screening effectiveness; and
- Life-cycle management and upgrade of various systems and equipment to support CATSA's IT network infrastructure.

### Lease payments

- As a result of the adoption of IFRS 16, a portion of CATSA's lease payments are now funded through capital appropriations, as opposed to parliamentary appropriations for operating expenses.

## 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, 2020	March 31, 2019	\$ Variance
Employee benefits asset	\$ 1,482	\$ 5,728	\$ (4,246)
Employee benefits liability	(26,436)	(30,507)	4,071
<b>Net employee benefits liability</b>	<b>\$ (24,954)</b>	<b>\$ (24,779)</b>	<b>\$ (175)</b>

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 11 of the annual audited financial statements provides further details regarding the underlying assumptions used in determining the net position.

The employee benefits asset as at March 31, 2019, was comprised of CATSA's RPP and SRP, which were both in a net asset position. However, as at March 31, 2020, the RPP is now in a net liability position. The employee benefit liability also includes the present value of the defined benefit liability of the ODBP.

The decrease in the net financial position of employee benefits is mainly due to a remeasurement loss on CATSA's RPP and SRP assets of \$20.6M resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions. The decrease is also due to non-cash current benefit costs exceeding CATSA contributions by \$7.9M. The decreases are partially offset by a remeasurement gain of \$28.3M on the defined benefit obligation of the three plans arising from changes to financial assumptions and experience adjustments.

## FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's 2019/20 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 2019/20 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)	2019/20	2018/19	\$ Variance
<b>Financial performance before revenue and government funding</b>	<b>\$ 833,646</b>	\$ 789,836	\$ 43,810
<b>Revenue</b>	<b>(8,721)</b>	(12,714)	3,993
<b>Financial performance before government funding</b>	<b>824,925</b>	777,122	47,803
<b>Non-cash expenses</b>			
Depreciation and amortization	(71,861)	(64,151)	(7,710)
Employee benefits expense <sup>1</sup>	(7,899)	(8,167)	268
Loss on disposal of property and equipment	(1,405)	(611)	(794)
Write-off of property and equipment and intangible assets	(795)	(528)	(267)
Impairment of property and equipment	(597)	–	(597)
Non-cash finance costs related to leases	(492)	–	(492)
Non-cash (loss) gain on foreign exchange recognized in financial performance	(72)	148	(220)
Spare parts expense funded from capital <sup>2</sup>	(55)	(18)	(37)
Change in fair value of financial instruments at fair value through profit and loss	389	153	236
Deferred lease incentives recognized in financial performance <sup>3</sup>	–	101	(101)
<b>Parliamentary appropriations for operating expenses</b>	<b>\$ 742,138</b>	<b>\$ 704,049</b>	<b>\$ 38,089</b>
<b>Other items affecting funding</b>			
Net change in prepaids and inventories <sup>4</sup>	862	(976)	1,838
<b>Total operating appropriations used</b>	<b>\$ 743,000</b>	<b>\$ 703,073</b>	<b>\$ 39,927</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. There are no deferred lease incentives for the current year as these amounts are included as an offset to the right-of-use assets under IFRS 16 Leases.

<sup>4</sup> Prepaids funded through operating appropriations 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 expenditures reported under IFRS and capital appropriations used:

Reconciliation of Capital Acquisitions to Capital Appropriations Used			
(Thousands of Canadian dollars)	2019/20	2018/19	\$ Variance
EDS	\$ 91,829	\$ 103,613	\$ (11,784)
Non-EDS	8,310	8,003	307
Lease payments	3,936	–	3,936
<b>Total capital expenditures</b>	<b>\$ 104,075</b>	\$ 111,616	\$ (7,541)
Proceeds on disposal of property and equipment	(111)	(172)	61
Non-cash additions to leasehold improvements	–	(141)	141
Non-cash adjustment on foreign exchange related to capital expenditures	(102)	(450)	348
<b>Total capital appropriations used</b>	<b>\$ 103,862</b>	<b>\$ 110,853</b>	<b>\$ (6,991)</b>



# CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Year ended March 31, 2020



## MANAGEMENT'S RESPONSIBILITY STATEMENT

Year ended March 31, 2020

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. The Canadian Air Transport Security Authority's (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**  
*Vice-President, Corporate Affairs  
and Chief Financial Officer*

June 17, 2020



## 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 2020, 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 2020, 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 comprises the information 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, 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*.

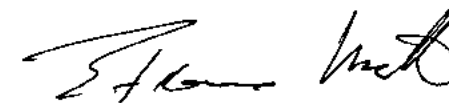
In our opinion, the transactions of the Canadian Air Transport Security Authority that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied, except for the change in the method of accounting for leases as explained in Note 3(c) to the financial statements, 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 Auditor General of Canada

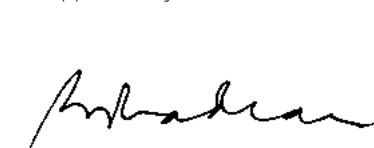
Ottawa, Canada  
17 June 2020

## Statement of Financial Position

(In thousands of Canadian dollars)

	As at March 31	
	2020	2019
<b>Assets</b>		
Current assets		
Cash	\$ 18,492	\$ 4,007
Trade and other receivables (note 4)	142,313	145,490
Inventories (note 5)	16,025	15,305
Prepays	4,496	3,253
Derivative financial assets (note 14)	926	495
	182,252	168,550
Non-current assets		
Property and equipment (note 6)	483,196	455,524
Intangible assets (note 7)	17,029	15,715
Right-of-use assets (note 8)	22,211	–
Employee benefits asset (note 11)	1,482	5,728
Derivative financial assets (note 14)	–	42
	523,918	477,009
<b>Total assets</b>	<b>\$ 706,170</b>	<b>\$ 645,559</b>
<b>Liabilities and Equity</b>		
Current liabilities		
Trade and other payables (note 14)	\$ 140,718	\$ 129,719
Holdbacks (note 14)	16,367	12,433
Lease liabilities (note 9)	3,548	–
Deferred government funding related to operating expenses (note 10)	19,420	18,558
	180,053	160,710
Non-current liabilities		
Holdbacks (note 14)	5,410	7,767
Lease liabilities (note 9)	19,379	–
Deferred lease incentives	–	482
Deferred government funding related to capital expenditures (note 10)	498,794	469,732
Employee benefits liability (note 11)	26,436	30,507
	550,019	508,488
Equity		
Accumulated deficit	(23,902)	(23,639)
<b>Total liabilities and equity</b>	<b>\$ 706,170</b>	<b>\$ 645,559</b>

Contingencies (note 15) and contractual arrangements (note 16)  
The accompanying notes are an integral part of these financial statements.  
Approved by the Board and authorized for issue on June 17, 2020:

  
**Marguerite Nadeau**  
Chairperson

  
**Michael Saunders**  
President and Chief Executive Officer

## Statement of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

	Years ended March 31	
	2020	2019
<b>Expenses</b>		
Pre-Board Screening	\$ 463,057	\$ 443,997
Hold Baggage Screening	171,796	158,729
Non-Passenger Screening	144,859	137,634
Restricted Area Identity Card Program	3,238	3,045
Corporate services	47,846	46,061
<b>Total expenses (note 12)</b>	<b>830,796</b>	<b>789,466</b>
<b>Other expenses (income)</b>		
Loss on disposal of property and equipment	1,405	611
Write-off of property and equipment and intangible assets	795	528
Impairment of property and equipment (note 6)	597	–
Finance costs	531	4
Net gain on fair value of derivative financial instruments	(389)	(153)
Foreign exchange gain	(89)	(620)
<b>Total other expenses (income)</b>	<b>2,850</b>	<b>370</b>
<b>Financial performance before revenue and government funding</b>	<b>833,646</b>	<b>789,836</b>
<b>Revenue</b>		
Screening services – supplemental	7,415	11,726
Finance income	1,215	979
Screening services – other	87	–
Miscellaneous income	4	9
<b>Total revenue</b>	<b>8,721</b>	<b>12,714</b>
<b>Government funding</b>		
Parliamentary appropriations for operating expenses (note 10)	742,138	704,049
Amortization of deferred government funding related to capital expenditures (note 10)	70,864	65,147
Parliamentary appropriations for lease payments (note 13)	3,936	–
<b>Total government funding</b>	<b>816,938</b>	<b>769,196</b>
<b>Financial performance</b>	<b>\$ (7,987)</b>	<b>\$ (7,926)</b>
Other comprehensive income		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 11)	7,724	6,760
<b>Total comprehensive income (loss)</b>	<b>\$ (263)</b>	<b>\$ (1,166)</b>

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, 2018</b>	\$ (22,473)
Financial performance	(7,926)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 11)	6,760
<b>Balance, March 31, 2019</b>	\$ (23,639)

	Accumulated deficit
<b>Balance, March 31, 2019</b>	\$ (23,639)
Financial performance	(7,987)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 11)	7,724
<b>Balance, March 31, 2020</b>	\$ (23,902)

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

## Statement of Cash Flows

(In thousands of Canadian dollars)

	Years ended March 31	
	2020	2019
<b>Cash flows provided by (used in)</b>		
<b>Operating activities</b>		
Financial performance	\$ (7,987)	\$ (7,926)
Items not involving cash		
Depreciation and amortization (note 12)	71,861	64,151
Increase in net employee benefits liability	7,899	8,167
Loss on disposal of property and equipment	1,405	611
Write-off of property and equipment and intangible assets	795	528
Impairment of property and equipment (note 6)	597	–
Other non-cash transactions	62	18
Amortization of deferred government funding related to capital expenditures (note 10)	(70,864)	(65,147)
Change in fair value of financial instruments at fair value through profit and loss	(389)	(153)
Deferred lease incentives recognized in financial performance	–	(101)
Net change in working capital balances (note 19)	(23,341)	30,570
	(19,962)	30,718
<b>Investing activities</b>		
Parliamentary appropriations received for capital funding	137,479	87,292
Purchase of property and equipment	(92,428)	(117,867)
Purchase of intangible assets	(7,161)	(6,096)
Proceeds on disposal of property and equipment	1	31
	37,891	(36,640)
<b>Financing activities</b>		
Lease principal payments	(3,444)	–
	(3,444)	–
Increase (decrease) in cash	14,485	(5,922)
Cash, beginning of year	4,007	9,929
<b>Cash, end of year</b>	<b>\$ 18,492</b>	<b>\$ 4,007</b>

Interest expense paid and interest income received approximate finance costs and finance income, respectively, in the Statement of Comprehensive Income (Loss).

Supplementary cash flow information (note 19)

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, 2020

### 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 belongings prior to their entry to the secure area of an air terminal building;
2. **HBS** – the screening of passengers' checked (or hold) baggage for prohibited items, prior to being loaded onto an aircraft;
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.

CATSA has provided PBS supplemental screening services on a cost recovery basis to the Greater Toronto Airports Authority (GTAA) since 2014, and intends to continue with this type of arrangement in the future. CATSA had previously entered into a similar agreement with the Vancouver International Airport Authority that was effective between June 26, 2017, and June 30, 2018.

CATSA also entered into a cost recovery agreement with the Muskoka Airport Authority to provide screening services over a 10-week period. Approval was obtained from TC and the 10-week period ran from June to September 2019. The agreement was extended to provide screening services, upon request from the airport authority, for an eleven-week period from June to September 2020.

In June 2019, CATSA was issued a directive (Order in Council P.C. 2019-783) pursuant to Section 89 of the FAA, which outlines certain principles with regards to CATSA's pension plans and replaces Order in Council P.C. 2014-1382 of December 2014. As at March 31, 2020, CATSA is compliant with the directive.

## Notes to the Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2020

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

CATSA is not subject to income tax under the provisions of the *Income Tax Act* (Canada). CATSA is subject to the *Excise Tax Act* (Canada), which includes the federal Goods and Services Tax (GST) and Harmonized Sales Tax (HST). CATSA is also subject to all provincial sales taxes (PST) applied by the provinces and territories in which it operates. CATSA is a GST/HST registrant. As a GST/HST registrant, CATSA is obligated to collect and remit taxes on taxable services supplied to external parties and CATSA's pension plans.

### 2. Basis of preparation

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

### 3. Summary of significant accounting policies

#### (a) Basis of measurement

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

#### (b) Use of estimates and judgments

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

In making estimates and using assumptions, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and assumptions have been applied in a manner consistent with prior periods, with the exception of the estimates and assumptions relating to right-of-use assets and lease liabilities as noted below. 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.



## Notes to the Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2020

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 value of work-in-progress, CATSA takes into account estimates provided by internal and external experts with respect to the stage of completion of an equipment integration project. Changes to the stage of completion would affect trade and other payables and the values of assets.

- note 3(i), note 8 and note 9 – Right-of-use assets and lease liabilities

Key estimates used for right-of-use assets and lease liabilities include the determination of an appropriate incremental borrowing rate to discount the lease payments, when the interest rate implicit in the lease is not readily determinable. As CATSA does not have borrowing authority and, in practice, does not have readily observable approved or granted borrowing rates from a financial institution, CATSA's approach to determining its incremental borrowing rate is based on the Bank of Canada zero-coupon bond rate, CATSA's entity-specific credit spread, and the lease-specific spread. CATSA's entity-specific credit spread and lease-specific spread are based on a publicly available yield curve that reflects Canadian agencies with investment grade ratings. The rate used to discount CATSA's rate lease payments is also based on the identified lease term.

- note 3(k) and note 11 – 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 benefits 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 11.

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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2020

- note 3(i), note 8 and note 9 – Right-of-use assets and lease liabilities

Judgments are required in determining whether it is reasonably certain that an extension or termination option will be exercised for contracts that contain a lease. In making this assessment, management considers a number of factors, including the nature of CATSA's work, proximity of other locations, lease extensions exercised in the past, market conditions, recent leasehold improvements and contract specific termination clauses.

Judgments are required in determining whether variable lease payments are in-substance fixed. In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. Such payments are included in the measurement of the lease liability. In determining whether variable lease payments are in-substance fixed, CATSA reviews lease contracts to assess the nature of the payments, specifically identifying if payments are subject to adjustments based on actual costs incurred, or payments are based on services that are variable in nature.

- note 3(l) and note 15 – 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, which may include results from customer credit checks, the customer's credit history, and CATSA's ability to limit losses by ceasing to provide services in the case of non-payment.

The nature of CATSA's promise in its contracts with the airport authorities is to provide supplemental screening of passengers. This screening includes a number of different activities, none of which individually provides 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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2020

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

#### IFRS 16 Leases

Effective April 1, 2019, CATSA adopted IFRS 16 *Leases*. IFRS 16 specifies how to recognize, measure, present and disclose leases. This standard introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and lease liability at the lease commencement date for all leases, except for certain leases subject to exemption. 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*.

CATSA applied IFRS 16 using the modified retrospective approach and accordingly the prior period information has not been restated. CATSA also elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets of \$25,474 (net of the deferred lease incentives of \$482) and lease liabilities of \$25,956 were recorded as of April 1, 2019, with no impact to equity. When measuring lease liabilities, CATSA discounted lease payments using its incremental borrowing rate as at April 1, 2019. The weighted-average incremental borrowing rate applied was 2.0%.

Based on the nature and use of CATSA's right-of-use assets, CATSA has two classes of underlying assets: office space and data centres.

CATSA elected to apply the practical expedient available on transition to not reassess whether a contract is, or contains, a lease. Accordingly, the definition of a lease, in accordance with IAS 17 and IFRIC 4 *Determining whether an arrangement contains a lease*, is applied to leases entered into or modified prior to April 1, 2019. CATSA applies the definition of a lease under IFRS 16 to all lease contracts entered into or modified on or after April 1, 2019.

CATSA elected to apply the practical expedient available on transition to not recognize a right-of-use asset or lease liability for certain leases in which the lease term ends within 12 months of transition. This assessment was made on a lease-by-lease basis. For leases in which the practical expedient was applied, CATSA accounts for these leases in the same manner as short-term leases and the payments are recognized as an expense in the period in which they occurred.

## Notes to the Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2020

Refer to note 3(i) for additional practical expedient choices.

The following table reconciles CATSA's operating lease commitments as at March 31, 2019, as previously disclosed in CATSA's financial statements, to the lease liabilities recognized on initial application of IFRS 16 as at April 1, 2019:

Operating lease commitments as at March 31, 2019	\$ 25,243
Discounted using incremental borrowing rate as at April 1, 2019	(2,246)
Variable lease payments that do not depend on an index or rate	(9,757)
Fixed operating costs related to data centre non-lease components <sup>1</sup>	(800)
Recognition exemption for short-term leases	(63)
Extension options reasonably certain to be exercised	13,579
Lease liabilities recognized as at April 1, 2019	\$ 25,956

<sup>1</sup> Previously, under IFRIC 4 *Determining whether an Arrangement contains a Lease*, CATSA included fixed operating costs associated with one of its data centre leases in the measurement of its operating lease commitments. Under IFRS 16 these items are considered non-lease components and are excluded from the measurement of the lease liabilities.

### (d) Inventories

Inventories consist of spare parts acquired for equipment maintenance, screening officer uniforms and RAIC. Inventories are stated at the lower of cost and net realizable value. Cost is determined using a weighted average cost formula and net realizable value is defined as replacement cost.

### (e) Property and equipment

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

#### (i) Recognition and measurement

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

Work-in-progress includes costs related to integration projects that remain incomplete at year-end. The value 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.



## Notes to the Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2020

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

### (ii) Subsequent costs

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

### (iii) Depreciation

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

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

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

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

### (f) Assets held for sale

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

### (g) Intangible assets

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

## Notes to the Financial Statements

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

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

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

Intangible assets are amortized using the straight-line method over their estimated useful lives of five to 10 years.

### (h) Impairment

The carrying amounts of CATSA's property and equipment and intangible assets are reviewed at each reporting period at the cash-generating unit (CGU) level to determine whether there is any indication of impairment. For the purpose of impairment testing, a CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets.

Under CATSA's business model, there are no assets that generate cash flows largely independent of the cash flows of other assets and liabilities. Instead, all assets interact to support its mandated activities. These operations are primarily funded by parliamentary appropriations. Overall levels of cash flow reflect public policy requirements and decisions, and budgetary funding is provided to CATSA in its entirety. Therefore, CATSA is considered one CGU. Assets are tested at the CGU level when they cannot be tested individually.

Property and equipment and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment, and are considered to be impaired if they are no longer able to contribute to CATSA's mandate. When the assets continue to contribute to the fulfillment of CATSA's mandate, the estimated useful lives of that property and equipment and intangible assets are reviewed and adjustments to amortization/depreciation are recorded on a prospective basis, if necessary.

## Notes to the Financial Statements

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### (i) Leases

At the inception of a contract, CATSA assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. If a lease is identified, CATSA recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost based on the following:

- amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently measured at cost less accumulated depreciation. The carrying amount of the right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability, if any.

The right-of-use asset is depreciated using the straight-line method over the shorter of the lease term or the estimated useful life of the underlying asset. The lease term includes periods covered by an option to extend if CATSA is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, CATSA's incremental borrowing rate, as identified above in note 3(b).

The lease payments included in the measurement of the lease liability are comprised of the following, where applicable:

- fixed payments (including in-substance fixed payments, if any), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantees;
- exercise price of a purchase option if it is reasonably certain that CATSA will exercise that; and
- payments of penalties for terminating the lease, if the lease term reflects CATSA exercising an option to terminate the lease.

## Notes to the Financial Statements

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CATSA's entity-specific credit spread and lease-specific spread are based on a publicly available yield curve that reflects Canadian agencies with investment grade ratings.

Variable lease payments that do not depend on an index or rate, and are not in-substance fixed, are not included in the measurement of the lease liability and, subsequently, the right-of-use asset. These payments are recognized as an expense in the period in which they occur.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured whenever:

- there is a change in the lease term, including a change in the assessment of whether an extension option will be exercised, in which case the lease liability is remeasured by discounting the revised lease payments on the basis of the revised lease term using a revised discount rate;
- the payments change due to changes in an index or rate, or a change in expected payments under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate; and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Based on the nature and use of CATSA's right-of-use assets, CATSA has two classes of underlying assets: office space and data centres. CATSA accounts for lease components and any non-lease components as a single lease component for its office space asset class. For its data centre asset class, CATSA separates non-lease components from lease components and accounts for them separately.

CATSA does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value. The lease payments associated with these leases are recognized as an expense on straight-line basis over the lease term.

### (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

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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, *Financial Instruments*, 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

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### (k) Employee benefits

#### (i) Post-employment benefit plans – defined benefit

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

Defined benefit costs are categorized as follows:

- service costs;
- net interest on the net defined benefit asset or liability; and
- remeasurements.

Service costs are determined separately for each plan using the projected unit credit method, with actuarial valuations for accounting purposes being carried out at the end of each annual reporting period. Current service cost is recognized as employee costs in determining financial performance. Employee contributions are recorded as a reduction to service cost in the period in which the related service is rendered. Past service cost is recognized as an employee cost in financial performance in the period of plan amendment or when the related restructuring costs or termination benefits are recognized, whichever is earlier. Administration costs paid from the plan assets during the period, excluding the costs of managing plan assets, are included in service costs. The cost of managing plan assets is recorded against the actual return on plan assets.

Net interest is calculated by applying the discount rate used to discount the post-employment benefit obligation to the net defined benefit asset or liability, taking into account any changes in the net defined benefit asset or liability during the period as a result of contribution and benefit payments. The discount rate is determined by reference to the yield, at the beginning of the period, on high quality corporate and provincial bonds that:

- a) have an overall duration equal to the respective duration of the defined benefit obligations; and
- b) are denominated in the same currency in which the benefits are expected to be paid.

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

## Notes to the Financial Statements

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

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

(ii) Post-employment benefit plan – defined contribution

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

(iii) Termination benefits

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

(iv) Short-term employee benefits

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

**(l) Provisions and contingencies**

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

## Notes to the Financial Statements

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

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

(i) Disputed claims

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

(ii) Decommissioning costs

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

**(m) Revenue**

(i) Supplemental screening services

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



## Notes to the Financial Statements

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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.

### (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 operating expenses for 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. Appropriations used for lease payments are recognized in financial performance in the period in which lease payments are made.

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) Finance cost

Finance cost, which is comprised primarily of interest expense associated with CATSA's lease liabilities, is recognized in financial performance in the period in which it is incurred.

### (p) 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.

## Notes to the Financial Statements

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### 4. Trade and other receivables

Trade and other receivables are comprised of:

	March 31, 2020	March 31, 2019
Parliamentary appropriations	\$ 132,862	\$ 131,926
GST and HST recoverable	5,143	9,142
PST recoverable	2,397	2,447
Screening services – supplemental	1,911	1,975
	\$ 142,313	\$ 145,490

Credit terms on trade receivables are 30 days. As at March 31, 2020, and 2019, 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 14(c)(i).

### 5. Inventories

Inventories are comprised of:

	March 31, 2020	March 31, 2019
Spare parts	\$ 13,956	\$ 13,843
RAIC	1,183	313
Uniforms	886	1,149
	\$ 16,025	\$ 15,305

During the year, inventories totalling \$6,385 (2019 – \$6,407) were charged to expenses.

## Notes to the Financial Statements

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### 6. Property and equipment

A reconciliation of property and equipment is as follows:

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equipment	Leasehold improvements	Work-in- progress	Total
<b>Cost</b>									
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
Balance, March 31, 2019	\$ 159,376	\$ 719,505	\$ 18,391	\$ 4,475	\$ 28,234	\$ 129	\$ 10,613	\$ 95,956	\$1,036,679
Additions	3,589	56,594	–	370	1,964	–	165	33,472	96,154
Disposals	(2,584)	(133,350)	(187)	–	(1,813)	–	–	–	(137,934)
Write-offs	(431)	(3,055)	–	(189)	(1,901)	–	(864)	(31)	(6,471)
Impairments	–	–	–	–	(214)	–	–	(383)	(597)
Reclassifications	(3,542)	72,391	2,653	27	2,436	–	–	(73,965)	–
Balance, March 31, 2020	\$ 156,408	\$ 712,085	\$ 20,857	\$ 4,683	\$ 28,706	\$ 129	\$ 9,914	\$ 55,049	\$ 987,831
<b>Accumulated depreciation</b>									
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
Balance, March 31, 2019	\$ 97,357	\$ 440,136	\$ 10,898	\$ 3,407	\$ 19,945	\$ 24	\$ 9,388	\$ –	\$ 581,155
Depreciation	12,908	47,690	1,650	551	2,890	24	349	–	66,062
Disposals	(2,531)	(131,887)	(187)	–	(1,813)	–	–	–	(136,418)
Write-offs	(334)	(2,946)	–	(189)	(1,831)	–	(864)	–	(6,164)
Reclassifications	(4,210)	2,542	1,668	–	–	–	–	–	–
Balance, March 31, 2020	\$ 103,190	\$ 355,535	\$ 14,029	\$ 3,769	\$ 19,191	\$ 48	\$ 8,873	\$ –	\$ 504,635
<b>Carrying amounts</b>									
As at March 31, 2019	\$ 62,019	\$ 279,369	\$ 7,493	\$ 1,068	\$ 8,289	\$ 105	\$ 1,225	\$ 95,956	\$ 455,524
As at March 31, 2020	\$ 53,218	\$ 356,550	\$ 6,828	\$ 914	\$ 9,515	\$ 81	\$ 1,041	\$ 55,049	\$ 483,196

## Notes to the Financial Statements

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During the year, CATSA recognized impairment losses of \$597 relating to screening equipment that was no longer able to contribute to the fulfilment of CATSA's mandate. The assets were considered fully impaired and the remaining net book value was recorded as an impairment loss. The recoverable amount was deemed to be \$Nil, which represents the equipment's value in use to CATSA, as all future cash flows associated with the equipment were estimated to be \$Nil.

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. 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.



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### 7. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
<b>Cost</b>				
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
Balance, March 31, 2019	\$ 9,120	\$ 20,208	\$ 4,577	\$ 33,905
Additions	1,616	203	2,166	3,985
Write-offs	(171)	(4,444)	–	(4,615)
Reclassifications	1,062	952	(2,014)	–
Balance, March 31, 2020	\$ 11,627	\$ 16,919	\$ 4,729	\$ 33,275
<b>Accumulated amortization</b>				
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
Balance, March 31, 2019	\$ 4,005	\$ 14,185	\$ –	\$ 18,190
Amortization	888	1,240	–	2,128
Write-offs	(171)	(3,901)	–	(4,072)
Balance, March 31, 2020	\$ 4,722	\$ 11,524	\$ –	\$ 16,246
<b>Carrying amounts</b>				
As at March 31, 2019	\$ 5,115	\$ 6,023	\$ 4,577	\$ 15,715
As at March 31, 2020	\$ 6,905	\$ 5,395	\$ 4,729	\$ 17,029

During the year, CATSA recorded \$543 (2019 – \$Nil) related to the write-off of intangible assets. These write-offs mainly represent software no longer in use prior to the end of their useful lives.

There were no research and development costs expensed for the years ended March 31, 2020, or 2019.

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### 8. Right-of-use assets

A reconciliation of right-of-use assets is as follows:

	Office space	Data centres	Total
Balance, April 1, 2019	\$ 23,741	\$ 1,733	\$ 25,474
Additions	291	117	408
Depreciation	(3,459)	(212)	(3,671)
Balance, March 31, 2020	\$ 20,573	\$ 1,638	\$ 22,211

### 9. Lease liabilities

CATSA has leases that are for office space and data centres. CATSA has included extension options in the measurement of its lease liabilities when it is reasonably certain to exercise the extension option.

A reconciliation of lease liabilities is as follows:

Balance, April 1, 2019	\$ 25,956
Additions	408
Lease payments (note 13)	(3,936)
Finance costs	492
Foreign exchange revaluation	7
Balance, March 31, 2020	\$ 22,927
Balance, March 31, 2020	
Current	\$ 3,548
Non-current	19,379

For the year ended March 31, 2020, CATSA recognized the following expenses not included in the measurement of the lease liabilities:

Variable lease payments	\$ 2,645
Short-term leases	20
Low value leases	86
	\$ 2,751

Variable lease payments include operating costs, property taxes, insurance, and other service-related costs.

For the year ended March 31, 2020, CATSA recognized a total cash outflow for leases of \$6,687.

## Notes to the Financial Statements

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The following table presents the undiscounted cash flows for contractual lease obligations as at March 31, 2020:

No later than 1 year	\$	7,170
Later than 1 year and no later than 5 years		11,651
Later than 5 years		343
Total	\$	19,164

### 10. Deferred government funding

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

	March 31, 2020	March 31, 2019
<b>Deferred government funding related to operating expenses</b>		
Balance, beginning of year	\$ 18,558	\$ 19,534
Parliamentary appropriations used to fund operating expenses (note 13)	743,000	703,073
Parliamentary appropriations for operating expenses recognized in financial performance	(742,138)	(704,049)
Balance, end of year	\$ 19,420	\$ 18,558
<b>Deferred government funding related to capital expenditures</b>		
Balance, beginning of year	\$ 469,732	\$ 424,026
Parliamentary appropriations used to fund capital expenditures (note 13)	99,926	110,853
Amortization of deferred government funding related to capital expenditures recognized in financial performance	(70,864)	(65,147)
Balance, end of year	\$ 498,794	\$ 469,732
Total deferred government funding, end of year	\$ 518,214	\$ 488,290

For additional information on government funding, see note 13.

### 11. Employee benefits

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

CATSA maintains three post-employment benefit plans:

- A registered pension plan (RPP), which is registered with the Office of the Superintendent of Financial Institutions and with the Canada Revenue Agency and contains both a defined benefit and a defined contribution component;

## Notes to the Financial Statements

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- A supplementary retirement plan (SRP), which supplements the defined benefit component of the RPP for benefits limited by the *Income Tax Act* (Canada) and is funded by a retirement compensation arrangement regulated by the Canada Revenue Agency; and
- An other defined benefits plan (ODBP), which includes life insurance and eligible health and dental benefits.

CATSA's defined benefit pension plans consist of the defined benefit component of the RPP and the SRP. Pension benefits are based on the average of the best five consecutive years of pensionable salary and are indexed to the rate of inflation. CATSA's defined contribution pension plan consists of the defined contribution component of the RPP. All full-time and part-time indeterminate employees are eligible for the ODBP.

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

CATSA maintains a defined contribution pension plan for employees hired after June 30, 2013. Enrollment in this plan is mandatory for full-time indeterminate employees, as well as part-time indeterminate employees working an average of more than 20 hours per week. Under this plan, CATSA and its employees are required to contribute a specified percentage of salaries to fund the benefits, with optional contributions for employees matched at various levels by the employer based on years of service. CATSA's financial obligation is limited to matching employee contributions, as outlined in the provisions of the plan.

The Board of Directors is responsible for the oversight of the post-employment benefit plans, including review of investment strategies and funding, review and approval of documents and reports required by law, and setting the policies of the plans. The Governance, Human Resources and Pension Committee, a committee of the Board, assists the Board in discharging its responsibilities. This Committee is responsible for overseeing the management and administration of the plans.

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

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



## Notes to the Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2020

## (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 for the years ended:

	March 31					
	RPP		SRP		ODBP	
	2020	2019	2020	2019	2020	2019
<b>Fair value of plan assets</b>						
Balance, beginning of year	\$ 207,254	\$ 195,976	\$ 6,842	\$ 6,639	\$ -	\$ -
<i>Included in financial performance</i>						
Interest income	7,264	6,913	239	232	-	-
Administration costs	(300)	(250)	(15)	(15)	-	-
<i>Included in other comprehensive income (loss)</i>						
Remeasurement (losses) gains						
Return on assets excluding interest income	(20,083)	3,604	(541)	20	-	-
<i>Other</i>						
CATSA contributions	3,938	3,928	50	34	162	216
Plan participant contributions	3,264	3,378	50	34	-	-
Benefit payments and transfers	(4,568)	(6,295)	(110)	(102)	(162)	(216)
Balance, end of year	\$ 196,769	\$ 207,254	\$ 6,515	\$ 6,842	\$ -	\$ -
<b>Present value of defined benefit liabilities</b>						
Balance, beginning of year	\$ 203,323	\$ 192,630	\$ 5,045	\$ 4,955	\$ 30,507	\$ 28,402
<i>Included in financial performance</i>						
Current service cost	8,546	8,974	97	70	1,870	1,849
Interest expense	7,416	7,101	179	176	1,129	1,055
<i>Included in other comprehensive income (loss)</i>						
Remeasurement (gains) losses						
Actuarial gains arising from changes in demographic assumptions	-	(835)	-	(16)	-	(583)
Actuarial gains arising from changes in financial assumptions	(10,060)	-	(235)	-	(12,052)	-
Actuarial (gains) losses arising from experience adjustments	(5,325)	(1,630)	7	(72)	(683)	-
<i>Other</i>						
Plan participant contributions	3,264	3,378	50	34	-	-
Benefit payments and transfers	(4,568)	(6,295)	(110)	(102)	(162)	(216)
Balance, end of year	\$ 202,596	\$ 203,323	\$ 5,033	\$ 5,045	\$ 20,609	\$ 30,507
Net employee benefits (liability) asset	\$ (5,827)	\$ 3,931	\$ 1,482	\$ 1,797	\$ (20,609)	\$ (30,507)

## Notes to the Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2020

	March 31, 2020	March 31, 2019
Employee benefits asset, end of year		
RPP	\$ -	\$ 3,931
SRP	1,482	1,797
	1,482	5,728
Employee benefits liability, end of year		
RPP	(5,827)	-
ODBP	(20,609)	(30,507)
	(26,436)	(30,507)
Employee benefits – net liability, end of year	\$ (24,954)	\$ (24,779)

## (d) Employee benefits costs

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

	March 31							
	RPP		SRP		ODBP		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Defined benefit cost recognized in financial performance</b>								
Current service cost	\$ 8,546	\$ 8,974	\$ 97	\$ 70	\$ 1,870	\$ 1,849	\$ 10,513	\$ 10,893
Administration costs	300	250	15	15	-	-	315	265
Interest cost on defined benefit obligation	7,416	7,101	179	176	1,129	1,055	8,724	8,332
Interest income on plan assets	(7,264)	(6,913)	(239)	(232)	-	-	(7,503)	(7,145)
Defined benefit cost	\$ 8,998	\$ 9,412	\$ 52	\$ 29	\$ 2,999	\$ 2,904	\$ 12,049	\$ 12,345
<b>Remeasurement of defined benefit plans recognized in other comprehensive income</b>								
Return on plan assets excluding interest income	\$ (20,083)	\$ 3,604	\$ (541)	\$ 20	\$ -	\$ -	\$ (20,624)	\$ 3,624
Actuarial gains	15,385	2,465	228	88	12,735	583	28,348	3,136
Remeasurement of defined benefit plans	\$ (4,698)	\$ 6,069	\$ (313)	\$ 108	\$ 12,735	\$ 583	\$ 7,724	\$ 6,760

Defined benefit cost is recognized in employee costs in note 12, 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, 2020

### (e) Composition of plan assets

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

	RPP		SRP		Total	
	2020	2019	2020	2019	2020	2019
<i>Investment funds</i>						
Equity securities						
Canadian equity funds	\$ 29,628	\$ 31,155	\$ 979	\$ 1,149	\$ 30,607	\$ 32,304
U.S. equity fund	–	–	1,253	1,399	1,253	1,399
International equity funds	76,929	83,390	1,136	1,258	78,065	84,648
Debt securities						
Canadian bond fund	67,825	72,268	–	–	67,825	72,268
Real estate	22,136	20,182	–	–	22,136	20,182
Canada Revenue Agency refundable tax account	–	–	3,147	3,036	3,147	3,036
Cash and cash equivalents	251	259	–	–	251	259
<b>Total plan assets, end of year</b>	<b>\$ 196,769</b>	<b>\$ 207,254</b>	<b>\$ 6,515</b>	<b>\$ 6,842</b>	<b>\$ 203,284</b>	<b>\$ 214,096</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, 2020

### (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	
	2020	2019	2020	2019	2020	2019
<i>Present value of defined benefit liability</i>						
Discount rate	3.75%	3.50%	3.75%	3.50%	3.75%	3.50%
Long-term rate of compensation increase	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>	CPM2014 Publ	CPM2014 Publ	CPM2014 Publ	CPM2014 Publ	CPM2014 Publ	CPM2014 Publ
<i>Benefit costs</i>						
Discount rate	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
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					5.26%	6.00%
Ultimate medical cost trend rate					3.93%	4.50%
Year ultimate reached					2040	2025

<sup>1</sup> Canadian Pensioners' Mortality 2014 – Public Sector, projected with improvement scale CPM-B

The sensitivity analysis below was determined based on changes to the respective assumptions occurring at March 31, 2020, while holding all other assumptions constant:

	Change	Impact on defined benefit liabilities
Increase in discount rate	1%	\$ (41,013)
Decrease in discount rate	1%	54,996
Increase in long-term rate of compensation increase	1%	13,630
Decrease in long-term rate of compensation increase	1%	(12,027)
Increase in inflation	1%	34,916
Decrease in inflation	1%	(28,029)
Increase in life expectancy	1 year	5,555
Decrease in life expectancy	1 year	(5,328)
Increase in assumed medical cost trend rate	1%	3,270
Decrease in assumed medical cost trend rate	1%	(2,485)

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, 2020

### (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, 2018	December 31, 2019
SRP	December 31, 2018	December 31, 2019
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, 2021, will total \$10,975, and consist of CATSA contributions of \$7,742 and plan participant contributions of \$3,233.

Cash payments to be made to the unfunded ODBP for the year ending March 31, 2021, 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, 2021, will total \$273.

As at March 31, 2020, the weighted average duration of the defined benefit obligation for the RPP, the SRP and the ODBP was 20.8 years (2019 – 22.8 years), 18.2 years (2019 – 19.0 years) and 21.6 years (2019 – 24.3 years), respectively.

### (h) Employee costs

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

	March 31, 2020	March 31, 2019
Employee costs (excluding post-employment and termination benefits)	\$ 53,095	\$ 49,859
Post-employment benefits		
Defined benefit pension plans and other defined benefits plan	12,049	12,345
Defined contribution pension plan	685	540
Termination benefits	73	273
Total employee costs (note 12)	\$ 65,902	\$ 63,017

## Notes to the Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2020

### 12. 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, 2020	March 31, 2019
Screening services and other related costs		
Payments to screening contractors	\$ 616,281	\$ 585,665
Uniforms and other screening costs	6,602	5,602
Trace and consumables	3,563	3,026
	626,446	594,293
Equipment operating and maintenance		
Equipment maintenance and spare parts	41,487	39,831
Training and certification	1,847	1,567
RAIC	1,011	860
	44,345	42,258
Program support and corporate services		
Employee costs (note 11)	65,902	63,017
Office and computer expenses	8,131	7,666
Professional services and other business related costs	7,143	6,371
Other administrative costs	3,287	4,576
Other lease costs (note 9)	2,751	–
Communications and public awareness	930	1,143
Operating leases	–	5,991
	88,144	88,764
Depreciation and amortization		
Depreciation of property and equipment (note 6)	66,062	62,371
Depreciation of right-of-use assets (note 8)	3,671	–
Amortization of intangible assets (note 7)	2,128	1,780
	71,861	64,151
	\$ 830,796	\$ 789,466

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)  
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### 13. Government funding

Parliamentary appropriations were as follows for the years ended:

	March 31, 2020	March 31, 2019
Main estimates	\$ 875,160	\$ 586,158
Supplementary estimates	23,111	276,650
Capital reprofile – approved	–	(16,772)
Total voted parliamentary appropriations	898,271	846,036
Capital reprofile to future year – in progress <sup>1</sup>	(41,479)	(26,118)
Operating reprofile to future year – in progress	(7,750)	–
Unused portion of parliamentary appropriations	(2,180)	(5,992)
Total parliamentary appropriations used	\$ 846,862	\$ 813,926

<sup>1</sup> The capital reprofile in progress for the year ended March 31, 2019, was approved during the year ended March 31, 2020.

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

	March 31, 2020	March 31, 2019
Parliamentary appropriations used to fund operating expenses (note 10)	\$ 743,000	\$ 703,073
Parliamentary appropriations used to fund capital expenditures (note 10)	99,926	110,853
Parliamentary appropriations for lease payments (note 9)	3,936	–
Total parliamentary appropriations used	\$ 846,862	\$ 813,926

### 14. 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

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

	March 31, 2020		March 31, 2019	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial assets <sup>1</sup>	\$ 926	\$ 926	\$ 537	\$ 537
Financial instruments measured at amortized cost				
Non-current holdbacks <sup>2</sup>	\$ 5,410	\$ 5,410	\$ 7,767	\$ 7,767

<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, 2020, or 2019.

### 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, 2020	\$ 5,015	\$ 7,052
March 31, 2019	5,310	7,088

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 \$353 (2019 – \$354).



## Notes to the Financial Statements

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### (b) Liquidity risk

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

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

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total at March 31, 2020
Trade and other payables	\$ 123,417	\$ 17,301	\$ –	\$ 140,718
Holdbacks	11,887	4,480	5,410	21,777
	Less than 3 months	3 months to 1 year	Greater than 1 year	Total at March 31, 2019
Trade and other payables	\$ 113,668	\$ 16,051	\$ –	\$ 129,719
Holdbacks	11,584	849	7,767	20,200

CATSA's strategy for managing liquidity risk remains unchanged from March 31, 2019.

### (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, 2020, and 2019, was the carrying value of these assets.

#### (i) Screening services – supplemental

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, 2020, 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 customer's 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.

## Notes to the Financial Statements

(In thousands of Canadian dollars)  
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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, 2020, and 2019. 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, 2020		March 31, 2019	
	Notional	Fair Value	Notional	Fair Value
Foreign exchange forward contracts <sup>1</sup>	\$ 12,459	\$ 13,385	\$ 28,206	\$ 28,743

<sup>1</sup> The foreign exchange forward contracts' rates are between 1.294 and 1.3165 for foreign exchange forward contracts in USD and the maturity dates are between April 6, 2020 and November 5, 2020.

## 15. 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, 2020, or 2019.

### (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

In 2018, 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.

## Notes to the Financial Statements

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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 \$22,744 (March 31, 2019 – \$20,950), offset by estimated recoverable taxes of \$10,360 (March 31, 2019 – \$9,980) for a net amount of \$12,384 (March 31, 2019 – \$10,970). These amounts have not been recorded in the financial statements.

### (ii) Decommissioning costs

CATSA has identified contingent liabilities associated with the removal of Explosives Detection Systems 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 2020/21 and 2029/30 (2019 – 2019/20 and 2028/29) is estimated to be \$3,775 (2019 – \$3,760).

### 16. Contractual 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, 2020	March 31, 2019
Operating	\$ 1,015,479	\$ 1,626,045
Capital	53,803	111,938
Total	\$ 1,069,282	\$ 1,737,983

### 17. 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.

## Notes to the Financial Statements

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

	March 31, 2020	March 31, 2019
Operating		
Income	\$ 816,938	\$ 769,196
Expenses	19,437	18,862
Capital		
HBS equipment	3,780	630

Income from related parties represents parliamentary appropriations for operating expenses, parliamentary appropriations for lease payments, and amortization of deferred government funding related to capital expenditures. Expenses presented above for the year ended March 31, 2020, include \$19,186 (2019 – \$17,919) 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, 2020	March 31, 2019
Receivable from related parties	\$ 138,005	\$ 141,068
Payable to related parties	(1,203)	(1,394)
Net receivable from related parties	\$ 136,802	\$ 139,674

At year-end, amounts receivable from related parties consist primarily of \$132,862 (2019 – \$131,926) due from the Government of Canada for parliamentary appropriations used during the year and not received at year-end, and \$5,143 (2019 – \$9,142) due from the Canada Revenue Agency for recoverable taxes paid on expenses. Amounts payable to related parties consist primarily of indirect taxes payable to the Canada Revenue Agency.

#### (b) Key management personnel

As at March 31, 2020, key management personnel of CATSA are composed of the 11 (2019 – 11) Board members and the five (2019 – 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, 2020	March 31, 2019
Salaries, other short-term employee benefits and termination benefits	\$ 1,645	\$ 1,526
Post-employment benefits	343	325
	\$ 1,988	\$ 1,851

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, 2020, or 2019.



## Notes to the Financial Statements

(In thousands of Canadian dollars)  
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### (c) Transactions with CATSA's post-employment benefit plans

Transactions with the RPP, SRP and ODBP are conducted in the normal course of business. The transactions with CATSA's post-employment benefit plans consist of contributions as determined by actuarial valuations, as disclosed in note 11. There were no other transactions during the years ended March 31, 2020, or 2019.

### 18. 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, current lease liabilities and provisions.

CATSA's objectives, policies and processes for managing capital have not changed during the years ended March 31, 2020, or March 31, 2019.

CATSA is not subject to externally imposed capital requirements.

### 19. 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, 2020	March 31, 2019
(Increase) decrease in trade and other receivables	\$ (34,376)	\$ 14,577
(Increase) decrease in inventories	(720)	1,096
Increase in prepaids	(142)	(120)
Increase in trade and other payables	11,035	15,993
Increase (decrease) in deferred government funding related to operating expenses	862	(976)
	\$ (23,341)	\$ 30,570

## Notes to the Financial Statements

(In thousands of Canadian dollars)  
Year ended March 31, 2020

The change in trade and other receivables excludes an amount of \$37,553 (2019 – \$23,561) in relation to government funding for capital expenditures, as the amount relates to investing activities.

The change in prepaids excludes an amount of \$1,101 (2019 – \$Nil) in relation to the acquisition of property and equipment, as the amount relates to investing activities.

The change in trade and other payables excludes an amount of \$36 (2019 – \$19,142) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

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

As part of Budget 2019, the Government of Canada announced its intention to introduce legislation to enable the creation of an independent, not-for-profit entity, established by industry, which will assume the responsibility for aviation screening at Canada's airports. The *Security Screening Services Commercialization Act* (SSSCA) was tabled as part of Bill C-97 and received Royal Assent in June 2019. The SSSCA allows for the sale of CATSA's assets and liabilities and the transfer of screening operations to the new entity.

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.

### 21. Subsequent events

In March 2020, in response to the COVID-19 pandemic, Governments around the world imposed a number of restrictions, which have resulted in a significant reduction in passenger volumes at Canadian airports. As the impact of COVID-19 started prior to March 31, 2020, CATSA's financial statements for the year then ended reflect the first effects of the pandemic on CATSA's operations. No adjustments were made for any subsequent events that occurred between April 1, 2020 and the issuance of these financial statements.

Subsequent to March 31, 2020, CATSA has experienced significant impacts on its screening operations and screening equipment, as some screening lines have temporarily closed. CATSA and its screening contractors have taken measures to maintain the certified screening officer workforce at a level that was deemed appropriate, including a gradual reduction of screening hours purchased that did not fully reflect the drastic decline in passenger volume. The extent of the impact on our future results cannot be estimated as the situation continues to evolve. CATSA's priority is the health and safety of screening officers at airports, maintaining security effectiveness, and remaining ready to respond when travel restrictions are lifted.

In addition, the Canadian and global markets uncertainties may also impact the present value of the defined benefit liabilities and fair value of the defined benefit plan assets. The full impact on CATSA's defined benefit plans remains unknown at this time.

CATSA will continue to monitor the situation and will assess the impacts and adjust accordingly.

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

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

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