Canadian Air Transport Security Authority | Administration canadienne de la sûreté du transport aérien

Quarterly Financial Report

For the Three Months Ended
June 30, 2018

Canada

CATSA ACSTA

CANADIAN AIR TRANSPORT SECURITY AUTHORITY
MANAGEMENT'S NARRATIVE DISCUSSION
FOR THE THREE MONTHS ENDED JUNE 30, 2018

Management's Narrative Discussion outlines the significant activities and initiatives, risks and financial results of the Canadian Air Transport Security Authority (CATSA) for the three months ended June 30, 2018. This Narrative Discussion should be read in conjunction with CATSA's unaudited condensed interim financial statements for the three months ended June 30, 2018, which have been prepared in accordance with Section 131.1 of the *Financial Administration Act* (FAA) and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). This Narrative Discussion should also be read in conjunction with CATSA's *2018 Annual Report.* At the time of publishing, CATSA's *2018 Annual Report* has not been tabled in Parliament. Until that time, CATSA is not in a position to provide the Management Discussion and Analysis for the year ended March 31, 2018. As a result, certain supplemental information has been provided in this Narrative Discussion. The information in this report is expressed in thousands of Canadian dollars and is current to August 22, 2018, 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.

CORPORATE OVERVIEW

CATSA is an agent Crown corporation, funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. CATSA's mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada.

CATSA delivers the mandate of security screening at 89 designated airports across the country through a third-party screening contractor model. 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 personal belongings;
- Hold Baggage Screening (HBS): the screening of checked baggage;
- Non-Passenger Screening (NPS): the random screening of non-passengers and their belongings, accessing restricted areas, including the screening of vehicles entering restricted areas of the aerodrome at the highest risk airports; and

- Restricted Area Identity Card (RAIC) Program: the administration of access control to airport restricted areas through biometric identifiers.

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

With the support of TC, CATSA entered into a Supplemental Screening Services trial agreement with the Greater Toronto Airports Authority (GTAA) for the provision of supplemental screening services effective October 5, 2014. This agreement has been renewed annually and is set to expire on March 31, 2019. Effective June 26, 2017, CATSA entered into a similar agreement with the Vancouver International Airport Authority (YVRAA). This agreement expired on June 30, 2018.

2017/18 ANNUAL HIGHLIGHTS

- CATSA implemented an enhanced Customer Service Commitment to passengers, which focuses on ensuring customer-service excellence at all points of contact with travellers.
- CATSA exceeded its wait time service level target and delivered a wait time service level where, on average, approximately 88% of all passengers waited 15 minutes or less to be screened at Class I airports on an annual basis.
- Despite significant growth in passenger volumes, CATSA has maintained wait time service levels while offering the highest levels of security to the travelling public.
- The Government of Canada launched a review of CATSA's governance model, in an effort to achieve a more sustainable and predictable funding model for the organization. Throughout 2017/18, CATSA worked closely with the government and stakeholders to evaluate the various governance options being considered. CATSA continues to support Transport Canada in this endeavour.
- In collaboration with the airport authorities, CATSA continued to deploy the CATSA Plus concept at Montreal-Trudeau International Airport, Toronto Pearson International Airport, Calgary International Airport and Vancouver International Airport.
- CATSA completed the Checkpoint Convergence project, which aimed to achieve greater consistency in the screening process. The completion of this project resulted in the national standardization of layouts, equipment, procedures for achieving additional (random) screening targets and an improved passenger experience.
- The HBS Recapitalization Program continues on track and on budget for completion in 2020.
- CATSA continued to work collaboratively and build on its relationships with key national and international stakeholders through a number of initiatives, including the World Economic Forum, Innovation Task Force and SMART Security.
- CATSA provided advice and training on screening to a number of federal departments, as well as international partners, demonstrating CATSA's innovative training expertise.

- In its continued efforts to enhance the customer experience, CATSA participated in a variety of outreach initiatives, including engaging with Indigenous Elders and participating in events targeted towards assisting travellers with autism.
- CATSA takes passenger complaints very seriously. Despite continuous increases in passenger volumes, the number of complaints CATSA received is relatively small, averaging about one complaint per 50,000 screened passengers.
- Over $1.2 million worth of lost items were found at various checkpoints, and returned to passengers prior to their flights.

OPERATING ENVIRONMENT

ECONOMIC OUTLOOK

Events and developments occurring in the economic environment greatly influence CATSA's operations. Global economic growth was projected at 3.6% for 2017. It is expected to increase to 3.8% in 2018 and then slow down to 3.5% in 2019 and 3.4% in 2020. In Canada, the economy grew by 3.0% in 2017, and is projected to grow by 2.0% in 2018, 2.2% in 2019 and 1.9% in 2020[1].

PASSENGER GROWTH AND SCREENING HOURS

Economic growth generally leads to increased passenger travel. Recent projections indicate that the number of enplaned passengers at Canadian airports will increase by 6.2% in 2018 compared to 2017, and is expected to grow in each of the next 5 years[2].

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

Statistics from CATSA's Boarding Pass Security System for the three months ended June 30, 2018, indicate that screened traffic across Canada increased by 5.3% over the same period in 2017, resulting in a need for additional screening hours to maintain wait time service levels.

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

[1] Bank of Canada, *Monetary Policy Report*, July 2018.
[2] SNC Lavalin Inc., February 2018 *Air Passenger Traffic Forecasts for CATSA Designated Airports.*

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.

CATSA continues to face a variety of challenges relating to increases in screening contractor billing rates and rising passenger volumes. Consequently, without additional funding, passengers may wait longer to be screened. CATSA's target is to achieve, on average, a wait time service level where 85% of all passengers are waiting 15 minutes or less to be screened at Class I airports on an annual basis. CATSA has been working with TC over the past several years in order to obtain sustainable and operationally effective long-term funding to address its financial pressures.

Over the last three years, CATSA has received one-year incremental funding from the Government of Canada to address these funding pressures, pending a long-term funding solution. More specifically, CATSA received incremental funding of $176.1M in 2017/18 in order to maintain its annual national average wait time service level target and to continue to deliver its enhanced NPS program.

Budget 2018 included $240.6M in incremental funding for CATSA for 2018/19. This funding should ensure that CATSA maintains its screening operations at its current wait time service level, as well as its current enhanced NPS program. The incremental funding also allows for the introduction of U.S. Pre-clearance operations at Quebec City Jean Lesage International Airport and Billy Bishop Toronto City Airport.

CATSA continues to work with TC to develop a long-term solution to address funding pressures and the associated impacts on air security screening programs.

COST RECOVERY

With the support of TC, CATSA entered into a Supplemental Screening Services trial agreement with the GTAA for the provision of supplemental screening services effective October 5, 2014. This agreement has been renewed annually and is set to expire on March 31, 2019. Effective June 26, 2017, CATSA entered into a similar agreement with the YVRAA. This agreement expired on June 30, 2018.

The Supplemental Screening Services trial agreements are consistent with the intent of Bill C-49, the Transportation Modernization Act, which received Royal Assent on May 23, 2018. Bill C-49 allows CATSA to enter into cost-recovery agreements for the delivery of screening services that are in line with CATSA's current mandate, at designated and non-designated airports. CATSA is continuing to work with Transport Canada to assess the full impact of Bill C-49, and will consult with the airport authorities who express an interest in purchasing additional screening services once the details have been finalized.

COMPLIANCE WITH DIRECTIVES

In December 2014, CATSA was issued a directive (PC 2014-1382) pursuant to section 89 of the *Financial Administration Act* (FAA) to align with Budget 2013 direction on public sector pension reform. The pension reform included a provision for adjusting the employer/employee current service cost sharing ratio to 50:50 by December 31, 2017.

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

CATSA submitted the final version of its business case to TC in May 2017, with the understanding that it would be approved by the December 31, 2017 deadline. In December 2017, TC advised that the business case would not be approved by the deadline due to processing delays. TC continues to work with Treasury Board of Canada Secretariat to obtain the necessary approvals. It is unknown at this time when it will be received.

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

RISK ENVIRONMENT

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

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

i. To deliver mandated activities in an effective, efficient and consistent manner, while safeguarding the interests of the travelling public; and

ii. To provide services or programs in support of its mandated activities.

CATSA's mandate is not that of an intelligence gathering organization; rather, it relies upon directives from TC in order to respond to threat and risk information identified by intelligence agencies. The organization's mandated security screening programs provide a web of security that serves to reduce aviation security risks across the system.

RISK GOVERNANCE

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

Board of Directors

The BoD's key functions and responsibilities are to provide strategic direction, financial oversight, corporate oversight and governance. With respect to risk management, it ensures that management identifies, monitors and manages CATSA's corporate risks. It is responsible for providing clear direction of risk attitude, and approving the risk management policy as well as the corporate risk profile.

Senior Management Committee

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

RISKS AND UNCERTAINTIES

CATSA's key risks are a snapshot of those risks that could impede the organization's ability to achieve its strategic objectives. The following is a summary of CATSA's key corporate risks identified as at March 31, 2018. There have been no significant changes to the corporate risk profile during the three months ended June 30, 2018.

MANDATED RISK SERVICES

Detection capability

Aviation security is CATSA's top priority. CATSA is mandated to provide screening in accordance with the security regulations, measures and directives set by TC. There is a risk that CATSA may not detect all high risk threat items, which may result in substantial consequences to the civil aviation system.

To address this risk, CATSA continually works to review, test and improve the effectiveness of its operational processes and procedures, and also maintains a capital program to support the replacement and upgrading of screening equipment.

Threat and risk information

The continuously evolving threat environment and aviation security trends may challenge CATSA's ability to act on emerging threats and risks. There is a risk that CATSA may not be able to respond to threat and risk information in a timely manner or may not exercise adequate due diligence when information is received.

To address this risk, CATSA conducts continuous monitoring and analysis of threat and risk information from external sources and disseminates this information to the appropriate decision makers. Detailed integrated response strategies include ensuring business continuity and emergency response plans are in place to respond to this threat and risk information. To strengthen the resilience of these plans, they are periodically tested and exercises are conducted.

CAPACITY RISK

Level of long-term funding to deliver core mandate

CATSA continues to face a variety of external challenges such as increases in screening contractor billing rates and rising passenger volumes. As a result, its ability to purchase screening hours will decline over the coming years based on its approved funding levels. Consequently, passengers will wait longer to be screened without additional funding.

CATSA has been working with TC to develop a long-term, sustainable and operationally effective funding strategy to address this risk. Budget 2018 provided CATSA with incremental funding for 2018/19 to maintain a wait time service level where, on average, 85% of all passengers wait 15 minutes or less to be screened at Class I airports on an annual basis.

Level of corporate capacity to deliver core mandate and provide corporate support services

While CATSA's streamlined corporate structure has made the organization leaner, the organization may have limited depth of resources to support its core mandate including the provision of corporate support services.

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

SERVICE DELIVERY THROUGH THIRD-PARTY RISK

Legal or illegal labour disruptions

CATSA outsources its services to screening 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. The majority of the collective bargaining agreements between screening contractors and unions have expired on March 31, 2018, and the collective bargaining renewal process is underway. There is a risk that legal or illegal labour disruptions may occur as a result of union activity or the collective bargaining process.

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

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

Service delivery model – outsourcing

Given CATSA's service delivery model, the organization relies on screening contractors for delivering a critical and mandated service for Canadians. There is a risk that if a screening contractor is unable to provide screening services as contracted, CATSA's service delivery may be negatively impacted.

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.

REPUTATIONAL RISK

Through various communication channels, stakeholders have raised concerns about CATSA's operations on a variety of issues such as inconsistency of screening and longer wait-times, and have questioned whether CATSA's delivery of mandated services provides value for money. There is a risk that this may damage CATSA's reputation.

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

MANAGEMENT SYSTEMS/CONTROL SYSTEMS RISK

Management of sensitive, secret or personal information

CATSA produces, collects and maintains a multitude of sensitive, secret and personal documentation and information. There is a risk that sensitive, secret or personal information in both physical and/or electronic formats may be lost or disclosed inappropriately.

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

Organizational preparedness for emergencies

An integrated business continuity and emergency management plan is essential to ensure continuity of operations and recovery from major incidents or emergencies. There is a risk that CATSA's business continuity and emergency response plans may not be fully integrated, tested and understood in order to effectively respond to and recover from emergencies and maintain operational readiness.

To address this risk, the plan is regularly updated and various components of the plan are tested on an annual basis. Any identified gaps are corrected and addressed during each review process.

HUMAN RESOURCES RISK

Employee recruitment

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

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

Employee retention and healthy workplace

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

To address this risk, the organization is focusing on initiatives to retain talent and improve employee engagement. CATSA has implemented improvements to its human resources practices and policies arising from the recommendations of three working groups established to address employee concerns around flexible work environment, the culture of recognition and an inclusive and diverse work environment. In addition, the organization has implemented a number of improvements to employee compensation.

INFORMATION TECHNOLOGY (IT) RISK

Cyber attacks on IT infrastructure

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

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

GOVERNANCE RISK

Period of interim senior leadership

The current President and CEO has been appointed by an order in council for a period of one year or until a new President and CEO is appointed. There is a risk that, in such circumstances, the organization may face challenges in pursuing new longer term strategies and strategic objectives during this period of interim senior leadership.

To address this risk, CATSA is actively engaged with government to support the process to appoint a President and CEO.

ANALYSIS OF FINANCIAL RESULTS

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS)

The following section provides information on key variances within the Condensed Interim Statement of Comprehensive Income (Loss) for the three months ended June 30, 2018, and June 30, 2017.

Key Financial Highlights - Condensed Interim Statement of Comprehensive Income (Loss)	Three Months Ended June 30			
	2018	2017		
(Thousands of Canadian dollars)	(unaudited)	(unaudited)	$ Change	% Change
Expenses[1]				
Screening services and other related costs	$ 145,132	$ 132,828	$ 12,304	9.3%
Equipment operating and maintenance	9,866	9,445	421	4.5%
Program support and corporate services	21,459	20,608	851	4.1%
Depreciation and amortization	15,320	13,979	1,341	9.6%
Total expenses	**191,777**	**176,860**	**14,917**	**8.4%**
Other expenses (income)	**(71)**	**663**	**(734)**	**(110.7%)**
Financial performance before revenue and government funding	**191,706**	**177,523**	**14,183**	**8.0%**
Revenue	**4,467**	**3,534**	**933**	**26.4%**
Government funding				
Parliamentary appropriations for operating expenses	168,493	157,192	11,301	7.2%
Amortization of deferred government funding related to capital expenditures	15,587	14,183	1,404	9.9%
Total government funding	**184,080**	**171,375**	**12,705**	**7.4%**
Financial performance	**$ (3,159)**	**$ (2,614)**	**$ (545)**	**(20.8%)**
Other comprehensive income (loss)	**14,878**	**(10,939)**	**25,817**	**236.0%**
Total comprehensive income (loss)	**$ 11,719**	**$ (13,553)**	**$ 25,272**	**186.5%**

[1] The Condensed Interim 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 10 of the unaudited condensed interim financial statements for the three months ended June 30, 2018.

Screening services and other related costs

Screening services and other related costs increased by $12,304 (9.3%) for the three months ended June 30, 2018, compared to the same period in 2017. The variance is primarily due to the purchase of additional screening hours totaling $6,408 and annual screening contractor billing rate increases amounting to $3,886. The increase is also due to higher performance program costs totaling $1,616 as a result of the increase in screening hours and improved screening contractor performance.

The increase in screening hours purchased is mainly due to additional screening requirements to support higher passenger volumes, the implementation of enhanced screening measures for electronic devices that came into effect in July 2017, and additional supplemental screening hours to support the GTAA and YVRAA trial agreements. These increases are partially offset by reduced screening requirements resulting from the NPS Aircraft exemption that came into effect in July 2017.

Depreciation and amortization

Depreciation and amortization increased by $1,341 (9.6%) for the three months ended June 30, 2018, compared to the same period in 2017. The increase is primarily due to new deployments of CATSA Plus, as well as HBS equipment deployments as part of the HBS life-cycle management program. The increase is partially offset by older HBS equipment becoming fully depreciated.

Revenue

Revenue increased by $933 (26.4%) for the three months ended June 30, 2018, compared to the same period in 2017. The increase is mainly attributable to the purchase of a greater number of supplemental screening hours in the amount of $1,684 to support the trial agreements. This increase is partially offset by a non-cash vendor credit of $762 received in the prior year.

Parliamentary appropriations for operating expenses

Parliamentary appropriations for operating expenses increased by $11,301 (7.2%) for the three months ended June 30, 2018, compared to the same period in 2017. The increase is mainly attributable to increased spending for screening services and other related costs, as discussed above.

Amortization of deferred government funding related to capital expenditures

Amortization of deferred government funding related to capital expenditures increased by $1,404 (9.9%) for the three months ended June 30, 2018, compared to the same period in 2017. The increase is mainly attributable to increased depreciation and amortization, as previously discussed.

Other comprehensive income (loss)

Other comprehensive income (loss) is composed of quarterly non-cash remeasurements resulting from changes in actuarial assumptions and the return on pension plan assets.

Other comprehensive income of $14,878 for the three months ended June 30, 2018, is mainly due to a remeasurement gain of $12,796 on the defined benefit liability arising from a 25 basis point increase in the discount rate since March 31, 2018. It was also due to a remeasurement gain of $2,082 resulting from a higher actual rate of return on plan assets than the rate initially used in CATSA's assumptions. Other comprehensive loss of $10,939 for the three months ended June 30, 2017, is due to a remeasurement loss of $12,095 on the defined benefit liability arising from a 25 basis point decrease in the discount rate between March 31, 2017, and June 30, 2017. This was partially offset by a remeasurement gain of $1,156 resulting from a higher actual rate of return on plan assets than the rate initially used in CATSA's assumptions.

For more information, refer to note 9 of the unaudited condensed interim financial statements.

STATEMENT OF FINANCIAL POSITION

The following section provides information on key variances within the Condensed Interim Statement of Financial Position as at June 30, 2018, compared to March 31, 2018.

Key Financial Highlights - Condensed Interim Statement of Financial Position (Thousands of Canadian dollars)	June 30, 2018 (unaudited)	March 31, 2018 (audited)	$ Change	% Change
Current assets	$ 183,968	$ 166,329	$ 17,639	10.6%
Non-current assets	464,891	430,157	34,734	8.1%
Total assets	**$ 648,859**	**$ 596,486**	**$ 52,373**	**8.8%**
Current liabilities	$ 180,068	$ 161,751	$ 18,317	11.3%
Non-current liabilities	479,545	457,208	22,337	4.9%
Total liabilities	**$ 659,613**	**$ 618,959**	**$ 40,654**	**6.6%**

Assets

Current assets increased by $17,639 (10.6%) primarily due to the following:

- Increase in cash of $48,697 primarily due to the timing of funds received from the Government of Canada and the timing of disbursements to suppliers for goods and services.
- Decrease in trade and other receivables of $29,182, mainly due to a decrease in parliamentary appropriations receivable of $28,166 and a decrease in taxes recoverable of $2,655, partially offset by an increase in supplemental screening services receivable of $1,646; and
- Decrease in inventories of $1,809 primarily due to usage of $1,538 relating to uniform and spare part inventories.

Non-current assets increased by $34,734 (8.1%) primarily due to the following:

- Increase in property and equipment and intangible assets of $23,047 primarily due to the acquisition of property and equipment and intangible assets of $38,694, partially offset by depreciation and amortization of $15,320; and
- Increase in employee benefits asset of $11,711. The employee benefits asset is comprised of CATSA's registered pension plan and supplementary retirement plan, which are both in a net asset position. The increase is primarily due to a remeasurement gain of $11,072 on the defined benefit liability arising from a 25 basis point increase in the discount rate since March 31, 2018, and a remeasurement gain of $2,082 resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions. This was partially offset by the defined benefit cost exceeding contributions by $1,443.

Liabilities

Current liabilities increased by $18,317 (11.3%) primarily due to the following:

- Increase in trade and other payables of $19,639 due to the timing of disbursements associated with obligations outstanding with suppliers; and
- Decrease in deferred government funding related to operating expenditures of $2,014 mainly due to a reduction in the inventories balance.

Non-current liabilities increased by $22,337 (4.9%) primarily due to the following:

- Increase in deferred government funding related to capital expenditures of $22,768 due to parliamentary appropriations earned of $38,355 exceeding amortization of $15,587; and
- Decrease in employee benefits liability of $1,030 due to the remeasurement of CATSA's other defined benefits plan of $1,724, arising from a 25 basis point increase in the discount rate since March 31, 2018. This was partially offset by the defined benefit cost exceeding contributions by $694.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

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

PARLIAMENTARY APPROPRIATIONS USED

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

Reconciliation of Financial Performance to Operating Appropriations Used	Three Months Ended June 30	
	2018	2017
(Thousands of Canadian dollars)	(unaudited)	(unaudited)
Financial performance before revenue and government funding	$ 191,706	$ 177,523
Revenue	(4,467)	(3,534)
Financial performance before government funding	187,239	173,989
Non-cash expenses		
Depreciation and amortization	(15,320)	(13,979)
Employee benefits expense [1]	(2,137)	(1,854)
Employee cost accruals [2]	(1,357)	(1,060)
Write-off of property and equipment and intangible assets	(250)	(149)
Loss on disposal of property and equipment	(52)	(57)
Spare parts expense funded from capital [3]	(4)	(16)
Non-cash gain on foreign exchange recognized in financial performance	236	123
Change in fair value of financial instruments at fair value through profit and loss	114	(648)
Deferred lease incentives recognized in financial performance [4]	24	81
Non-cash vendor credits	-	762
Parliamentary appropriations for operating expenses	**$ 168,493**	**$ 157,192**
Other items affecting funding		
Net change in prepaids and inventories [5]	(2,014)	(1,187)
Total operating appropriations used	**$ 166,479**	**$ 156,005**

[1] Employee benefits are accounted for in the Condensed Interim 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.

[2] Employee cost accruals are accounting adjustments to record variable pay and accrued vacation used and incurred to June 30, 2018. These costs are only recorded for near-cash accrual purposes at year-end, creating a reconciling item during interim periods.

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

[4] Deferred lease incentives 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.

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

Capital Expenditures

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

Reconciliation of Capital Acquisitions to Capital Appropriations Used	**Three Months Ended June 30**	
	2018	**2017**
(Thousands of Canadian dollars)	(unaudited)	(unaudited)
Explosives Detection System	$ 38,248	$ 18,657
Non-Explosives Detection System	446	390
Total capital asset acquisitions	**$ 38,694**	**$ 19,047**
Proceeds on disposal of property and equipment [1]	(21)	(28)
Non-cash adjustment on foreign exchange related to capital acquisitions	(318)	(82)
Non-cash additions resulting from vendor credits	-	(762)
Total capital appropriations used	**$ 38,355**	**$ 18,175**

[1] Proceeds on disposal of property and equipment include non-cash proceeds received in the form of credit notes from suppliers.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these unaudited condensed interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*, and The Treasury Board of Canada *Standard on Quarterly Financial Statements for Crown Corporations* and for such internal controls as management determines are necessary to enable the preparation of the unaudited condensed interim financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the unaudited condensed interim financial statements.

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

Michael Saunders
President and Chief Executive Officer

Ottawa, Canada

August 22, 2018

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

Ottawa, Canada

August 22, 2018

Condensed Interim Financial Statements of

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

June 30, 2018

(Unaudited)

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Financial Position
(Unaudited)

(In thousands of Canadian dollars)

	June 30, 2018	March 31, 2018
Assets		
Current assets		
Cash	$ 58,626	$ 9,929
Trade and other receivables (note 3)	107,324	136,506
Inventories (note 4)	14,592	16,401
Prepaid expenses	2,928	3,133
Derivative financial assets (note 12)	498	360
	183,968	166,329
Non-current assets		
Property and equipment (note 5)	435,289	416,438
Intangible assets (note 6)	12,861	8,665
Employee benefits asset (note 9)	16,741	5,030
Derivative financial assets (note 12)	-	24
	464,891	430,157
Total assets	$ 648,859	$ 596,486
Liabilities and Equity		
Current liabilities		
Trade and other payables	$ 152,507	$ 132,868
Holdbacks	10,041	9,349
Deferred government funding related to operating expenses (note 8)	17,520	19,534
	180,068	161,751
Non-current liabilities		
Holdbacks (note 12)	4,961	4,338
Deferred lease incentives	418	442
Deferred government funding related to capital expenditures (note 8)	446,794	424,026
Employee benefits liability (note 9)	27,372	28,402
	479,545	457,208
Equity		
Accumulated deficit	(10,754)	(22,473)
Total liabilities and equity	$ 648,859	$ 596,486

Contingencies (note 7) and contractual arrangements (note 13)
The accompanying notes are an integral part of these condensed interim financial statements.

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Comprehensive Income (Loss)
(Unaudited)

(In thousands of Canadian dollars)

	Three months ended June 30	
	2018	2017
Expenses		
Pre-Board Screening	$ 108,854	$ 94,229
Hold Baggage Screening	37,715	37,007
Non-Passenger Screening	33,877	34,371
Restricted Area Identity Card Program	770	759
Corporate services	10,561	10,494
Total expenses (note 10)	191,777	176,860
Other expenses (income)		
Write-off of property and equipment and intangible assets	250	149
Loss on disposal of property and equipment	52	57
Finance cost	1	-
Foreign exchange gain	(260)	(191)
Net (gain) loss on fair value of derivative financial instruments	(114)	648
Total other expenses (income)	(71)	663
Financial performance before revenue and government funding	191,706	177,523
Revenue		
Supplemental screening services	4,279	2,595
Finance income	188	87
Miscellaneous income	-	762
Rental income	-	90
Total revenue	4,467	3,534
Government funding		
Parliamentary appropriations for operating expenses (note 8)	168,493	157,192
Amortization of deferred government funding related to capital expenditures (note 8)	15,587	14,183
Total government funding	184,080	171,375
Financial performance	$ (3,159)	$ (2,614)
Other comprehensive income (loss)		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)	14,878	(10,939)
Total comprehensive income (loss)	$ 11,719	$ (13,553)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Changes in Equity
(Unaudited)

(In thousands of Canadian dollars)

For the three months ended June 30:

		Accumulated deficit
Balance, March 31, 2018	$	(22,473)
Financial performance		(3,159)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		14,878
Balance, June 30, 2018	$	(10,754)
Balance, March 31, 2017	$	(5,207)
Financial performance		(2,614)
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)		(10,939)
Balance, June 30, 2017	$	(18,760)

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

CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Condensed Interim Statement of Cash Flows

(Unaudited)

(In thousands of Canadian dollars)

	Three months ended June 30	
	2018	2017
Cash flows provided by (used in)		
Operating activities		
Financial performance	$ (3,159)	$ (2,614)
Items not involving cash		
Depreciation of property and equipment (note 5 and 10)	15,008	13,721
Increase in net employee benefits liability	2,137	1,854
Amortization of intangible assets (note 6 and 10)	312	258
Write-off of property and equipment and intangible assets	250	149
Loss on disposal of property and equipment	52	57
Other non-cash transactions	4	(746)
Amortization of deferred government funding related to capital expenditures (note 8)	(15,587)	(14,183)
Change in fair value of financial instruments at fair value through profit and loss	(114)	648
Deferred lease incentives recognized in financial performance	(24)	(81)
Net change in working capital balances (note 15)	65,275	31,948
	64,154	31,011
Investing activities		
Parliamentary appropriations received for capital funding	27,200	25,808
Purchase of property and equipment	(38,719)	(24,063)
Purchase of intangible assets	(3,938)	(208)
	(15,457)	1,537
Increase in cash	48,697	32,548
Cash, beginning of period	9,929	36,267
Cash, end of period	$ 58,626	$ 68,815

Supplementary cash flow information (note 15)

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

1. Corporate information

CATSA is a Crown corporation listed under Part I, Schedule III of the *Financial Administration Act* and is an agent of Her Majesty in right of Canada. CATSA is responsible for securing specific elements of the air transportation system, from passenger and baggage screening to screening airport workers.

CATSA is funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. In October 2014, CATSA entered into a Supplemental Screening Services Trial Agreement with the Greater Toronto Airports Authority for the purchase of supplemental PBS screening hours from CATSA on a cost recovery basis. With the support of Transport Canada, the agreement was extended to March 31, 2019. Effective June 26, 2017, CATSA entered into a similar Trial Agreement with the Vancouver Airport Authority, which ended on June 30, 2018.

These condensed interim financial statements have been authorized for issuance by the Board of Directors on August 22, 2018.

2. Summary of significant accounting policies

(a) Basis of preparation

The condensed interim financial statements have been prepared in accordance with Section 131.1 of the *Financial Administration Act* and International Accounting Standards 34 *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board (IASB) and approved by the Accounting Standards Board of Canada (AcSB).

Section 131.1 of the *Financial Administration Act* requires that most parent Crown corporations prepare and make public quarterly financial reports in compliance with the Treasury Board of Canada Secretariat's *Standard on Quarterly Financial Reports for Crown Corporations*. These condensed interim financial statements have not been audited or reviewed by CATSA's external auditor.

As permitted by IAS 34, these interim financial statements are presented on a condensed basis and therefore do not include all necessary disclosures to conform, in all material respects, with IFRS disclosure requirements applicable to annual financial statements. These condensed interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements. Accordingly, they should be read in conjunction with the audited annual financial statements for the year ended March 31, 2018.

Significant accounting policies used in these condensed interim financial statements are disclosed in note 3 of CATSA's audited annual financial statements for the year ended March 31, 2018, except as noted below.

(b) Change in presentation

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

(c) Adoption of new International Financial Reporting Standards

The following new International Financial Reporting Standards were adopted by CATSA effective April 1, 2018. The adoption of these accounting standards did not have an impact on the condensed interim financial statements.

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

IFRS 15 was issued to replace IAS 18 *Revenue* and IAS 11 *Construction Contracts* and a number of other revenue-related interpretations. The standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This standard was effective for annual periods beginning on or after January 1, 2018, on a retrospective basis, with earlier application permitted.

(ii) IFRS 9 *Financial Instruments*

IFRS 9 was issued in July 2014 and is considered the final version, replacing earlier versions of IFRS 9, and completes the project to replace of IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a logical model for classification and measurement of financial assets and financial liabilities, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. This standard was effective for annual periods beginning on or after January 1, 2018, on a retrospective basis.

(d) Future accounting changes

As at the date of these financial statements, the following applicable new accounting standard has been issued by the IASB, but is not yet effective. CATSA is currently assessing the potential impact on its financial statements, and will continue to monitor this standard for developments until the time of adoption.

(In thousands of Canadian dollars)

(i) IFRS 16 *Leases*

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*. This standard will become effective for annual periods beginning on or after January 1, 2019, on a retrospective basis, with earlier adoption permitted in the period when IFRS 15 is adopted.

CATSA's assessment of IFRS 16 is ongoing. An initial scoping of its agreements has identified approximately 20 contracts that are currently being analyzed, which have a total undiscounted contract value of $28,772, as disclosed in note 13(b).

3. Trade and other receivables

Trade and other receivables are comprised of:

	June 30, 2018	March 31, 2018
Parliamentary appropriations	$ 93,233	$ 121,399
GST and HST recoverable	9,032	10,435
Supplemental screening services	3,913	2,267
PST recoverable	1,054	2,306
Other	92	99
	$ 107,324	$ 136,506

Credit terms on trade receivables are 30 days. As at June 30, 2018, and March 31, 2018, there were no amounts included in trade and other receivables that were past due.

4. Inventories

Inventories are comprised of:

	June 30, 2018	March 31, 2018
Spare parts	$ 13,207	$ 13,879
Uniforms	913	1,779
RAIC	472	743
	$ 14,592	$ 16,401

(In thousands of Canadian dollars)

5. Property and equipment

A reconciliation of property and equipment is as follows:

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equip-ment	Leasehold improve-ments	Work-in-progress	Total
Cost									
Balance, March 31, 2017	$ 125,283	$ 747,167	$ 20,345	$ 5,329	$ 27,203	$ 30	$ 9,929	$ 69,472	$ 1,004,758
Additions	15,810	19,055	1,196	59	680	-	87	38,177	75,064
Disposals	(1,133)	(95,365)	(974)	-	(441)	-	-	-	(97,913)
Write-offs	(524)	(981)	(1,240)	(1,403)	(2,609)	-	(25)	(123)	(6,905)
Reclassifications	5,434	19,927	527	454	2,081	-	11	(28,434)	-
Balance, March 31, 2018	$ 144,870	$ 689,803	$ 19,854	$ 4,439	$ 26,914	$ 30	$ 10,002	$ 79,092	$ 975,004
Balance, March 31, 2018	$ 144,870	$ 689,803	$ 19,854	$ 4,439	$ 26,914	$ 30	$ 10,002	$ 79,092	$ 975,004
Additions	2,773	3,271	-	-	2	-	-	28,163	34,209
Disposals	(336)	(4,429)	-	-	-	-	-	-	(4,765)
Write-offs	(34)	(164)	-	(48)	(183)	-	-	-	(429)
Reclassifications	3,123	55,187	222	35	788	-	-	(59,378)	(23)
Balance, June 30, 2018	$ 150,396	$ 743,668	$ 20,076	$ 4,426	$ 27,521	$ 30	$ 10,002	$ 47,877	$ 1,003,996
Accumulated depreciation									
Balance, March 31, 2017	$ 77,884	$ 484,912	$ 10,825	$ 3,724	$ 17,873	$ 30	$ 8,602	$ -	$ 603,850
Depreciation	11,370	40,492	1,649	637	3,285	-	370	-	57,803
Disposals	(1,130)	(94,791)	(974)	-	(441)	-	-	-	(97,336)
Write-offs	(360)	(871)	(484)	(1,402)	(2,609)	-	(25)	-	(5,751)
Balance, March 31, 2018	$ 87,764	$ 429,742	$ 11,016	$ 2,959	$ 18,108	$ 30	$ 8,947	$ -	$ 558,566
Balance, March 31, 2018	$ 87,764	$ 429,742	$ 11,016	$ 2,959	$ 18,108	$ 30	$ 8,947	$ -	$ 558,566
Depreciation	3,448	10,292	408	132	652	-	76	-	15,008
Disposals	(335)	(4,357)	-	-	-	-	-	-	(4,692)
Write-offs	220	(164)	-	(48)	(183)	-	-	-	(175)
Balance, June 30, 2018	$ 91,097	$ 435,513	$ 11,424	$ 3,043	$ 18,577	$ 30	$ 9,023	$ -	$ 568,707
Carrying amounts									
As at March 31, 2018	$ 57,106	$ 260,061	$ 8,838	$ 1,480	$ 8,806	$ -	$ 1,055	$ 79,092	$ 416,438
As at June 30, 2018	$ 59,299	$ 308,155	$ 8,652	$ 1,383	$ 8,944	$ -	$ 979	$ 47,877	$ 435,289

During the three months ended June 30, 2018, one of CATSA's portable screening units, for which no future use to CATSA has been identified, met the criteria to be classified as held for sale. A sale of the portable screening unit is expected within the next 12 months. The portable screening unit had a net book value of $Nil as at June 30, 2018.

(In thousands of Canadian dollars)

6. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2017	$ 4,111	$ 19,655	$ 2,333	$ 26,099
Additions	451	-	908	1,359
Write-offs	(68)	-	-	(68)
Balance, March 31, 2018	$ 4,494	$ 19,655	$ 3,241	$ 27,390
Balance, March 31, 2018	$ 4,494	$ 19,655	$ 3,241	$ 27,390
Additions	4,411	-	74	4,485
Write-offs	(17)	-	-	(17)
Reclassifications	23	-	-	23
Balance, June 30, 2018	$ 8,911	$ 19,655	$ 3,315	$ 31,881
Accumulated amortization				
Balance, March 31, 2017	$ 3,119	$ 14,529	$ -	$ 17,648
Amortization	287	858	-	1,145
Write-offs	(68)	-	-	(68)
Balance, March 31, 2018	$ 3,338	$ 15,387	$ -	$ 18,725
Balance, March 31, 2018	$ 3,338	$ 15,387	$ -	$ 18,725
Amortization	92	220	-	312
Write-offs	(17)	-	-	(17)
Balance, June 30, 2018	$ 3,413	$ 15,607	$ -	$ 19,020
Carrying amounts				
As at March 31, 2018	$ 1,156	$ 4,268	$ 3,241	$ 8,665
As at June 30, 2018	$ 5,498	$ 4,048	$ 3,315	$ 12,861

7. 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 June 30, 2018, or March 31, 2018.

(b) Contingencies

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

(i) Claims and legal proceedings

In 2017/18, CATSA received notification from an airport authority that it had been assessed by the Canada Revenue Agency for failing to charge HST to CATSA on funding agreements related to integration projects and maintenance agreements. With the cooperation of the airport authority, CATSA filed a notice of objection and is of the view that it is more likely than not that the notice of objection will be successful. Should the objection prove to be successful, CATSA will be able to recover all amounts remitted related to this assessment.

CATSA has similar funding agreements with other airport authorities that could result in an assessment by tax authorities. While CATSA judges that the likelihood of economic outflow related to these other funding agreements to be not probable, there is a risk that CATSA could be required to pay other assessments in the event that these other airport authorities are audited and the Canada Revenue Agency upholds its position. The maximum undiscounted cash flow that could be required to settle this contingent liability is estimated to be $17,954 (March 31, 2018 – $17,140), offset by estimated recoverable taxes of $8,834 (March 31, 2018 – $8,580) for a net amount of $9,120 (March 31, 2018 – $8,560). These amounts have not been recorded in the financial statements.

(ii) Decommissioning costs

During the three months ended June 30, 2018, there have been no material changes to the contingencies related to decommissioning costs. For a description of CATSA's decommissioning costs, refer to note 8(b)(ii) of the audited annual financial statement for the year ended March 31, 2018.

(In thousands of Canadian dollars)

8. Deferred government funding

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

	June 30, 2018	March 31, 2018
Deferred government funding related to operating expenses		
Balance, beginning of period	$ 19,534	$ 18,725
Operating expenses funded through parliamentary appropriations	166,479	646,307
Parliamentary appropriations recognized as government funding for operating expenses	(168,493)	(645,498)
Balance, end of period	$ 17,520	$ 19,534
Deferred government funding related to capital expenditures		
Balance, beginning of period	$ 424,026	$ 408,959
Capital expenditures funded through parliamentary appropriations	38,355	75,592
Amortization of deferred government funding related to capital expenditures	(15,587)	(60,525)
Balance, end of period	$ 446,794	$ 424,026
Total deferred government funding, end of period	$ 464,314	$ 443,560

For additional information on government funding, see note 11.

(In thousands of Canadian dollars)

9. Employee benefits

(a) Employee benefits asset and liability

Employee benefits asset and liability recognized and presented in the Condensed Interim Statement of Financial Position are detailed as follows:

	June 30, 2018	March 31, 2018
Employee benefits asset		
Registered pension plan (RPP)	$ 14,757	$ 3,346
Supplementary retirement plan (SRP)	1,984	1,684
	16,741	5,030
Employee benefits liability		
Other defined benefits plan (ODBP)	(27,372)	(28,402)
	(27,372)	(28,402)
Employee benefits - net liability	$ (10,631)	$ (23,372)

(In thousands of Canadian dollars)

(b) Employee benefits costs

The elements of employee benefits costs are as follows:

	For the three months ended June 30							
	RPP		SRP		ODBP		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Defined benefit cost (income) recognized in financial performance								
Current service cost	$ 2,244	$ 2,049	$ 17	$ 17	$ 462	$ 412	$ 2,723	$ 2,478
Administration costs	62	62	4	4	-	-	66	66
Interest cost on defined benefit obligation	1,775	1,645	44	38	264	242	2,083	1,925
Interest income on plan assets	(1,728)	(1,726)	(58)	(60)	-	-	(1,786)	(1,786)
Defined benefit cost (income)	$ 2,353	$ 2,030	$ 7	$ (1)	$ 726	$ 654	$ 3,086	$ 2,683
Remeasurement of defined benefit plans recognized in other comprehensive income (loss)								
Return on plan assets excluding interest income	$ 1,982	$ 1,189	$ 100	$ (33)	$ -	$ -	$ 2,082	$ 1,156
Actuarial gains (losses)	10,865	(10,257)	207	(217)	1,724	(1,621)	12,796	(12,095)
Remeasurement of defined benefit plans	$ 12,847	$ (9,068)	$ 307	$ (250)	$ 1,724	$(1,621)	$ 14,878	$ (10,939)

For the three months ended June 30, 2018, CATSA recognized an expense of $142 (2017 - $128) in relation to the defined contribution component of the RPP.

(c) Significant actuarial assumptions

Assumptions used to measure the defined benefit plan assets and liabilities are reviewed and, as necessary, revised at each reporting period. This typically includes reviewing the discount rates and actual rate of return on the plan assets against rates previously estimated, to reflect the current assumptions and circumstances. Changes to actuarial assumptions result in remeasurement gains and/or losses recognized in other comprehensive income (loss).

For the three months ended June 30, 2018, remeasurement gains of $14,878 resulted primarily from an increase in the discount rate of 25 basis points (from 3.50% at March 31, 2018 to 3.75% at June 30, 2018). The gain was also due to a higher actual rate of return on plan assets than the rate used in CATSA's assumptions (1.90% actual versus 0.88% expected for the RPP and 2.39% actual versus 0.88% expected for the SRP).

(In thousands of Canadian dollars)

For the three months ended June 30, 2017, remeasurement losses of $10,939 resulted from a decrease in the discount rate of 25 basis points (from 3.75% at March 31, 2017 to 3.50% at June 30, 2017) and a lower actual return on plan assets than the rate used in CATSA's assumptions for the SRP (0.42% actual versus 0.94% expected). This was partially offset by a higher actual rate of return on plan assets than the rate used in CATSA's assumptions for the RPP (1.60% actual versus 0.94% expected).

(d) Employer contributions

Employer contributions paid to the defined benefit plans for the three months ended June 30 are presented as follows:

	Three months ended June 30	
	2018	2017
Employer contributions		
RPP	$ 917	$ 798
ODBP	32	31
	$ 949	$ 829

Total employer contributions to the defined benefit plans are estimated to be $4,100 for the year ending March 31, 2019.

(In thousands of Canadian dollars)

10. Expenses

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

	Three months ended June 30	
	2018	2017
Screening services and other related costs		
Payments to screening contractors	$ 143,288	$ 131,162
Uniforms and other screening costs	1,399	1,397
Trace and consumables	445	269
	145,132	132,828
Equipment operating and maintenance		
Equipment maintenance and spare parts	9,354	9,199
RAIC	271	210
Training and certification	241	36
	9,866	9,445
Program support and corporate services		
Employee costs	16,284	15,492
Operating leases	1,566	1,604
Professional services and other business related costs	1,355	1,349
Office and computer expenses	1,100	947
Other administrative costs	1,045	1,049
Communications and public awareness	109	167
	21,459	20,608
Depreciation and amortization		
Depreciation of property and equipment	15,008	13,721
Amortization of intangible assets	312	258
	15,320	13,979
	$ 191,777	$ 176,860

Other business related costs include travel expenses, conference fees, membership and association fees, and meeting expenses. Other administrative costs include insurance, network and telephone expenses, and facilities maintenance.

(In thousands of Canadian dollars)

11. Government funding

CATSA's *Summary of the 2018/19 – 2022/23 Corporate Plan* has not yet been tabled in Parliament and, therefore, the total amount of parliamentary appropriations available for the current year is not yet publicly available. As a result, disclosure of parliamentary appropriations approved compared to parliamentary appropriations used has not been provided.

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

	Three months ended June 30	
	2018	2017
Parliamentary appropriations received and receivable	$ 275,363	$ 225,474
Amounts received and receivable related to prior period	(107,407)	(67,925)
Amounts to be used in future periods	(1,477)	(1,544)
Parliamentary appropriations used to fund operating expenses (note 8)	$ 166,479	$ 156,005

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

	Three months ended June 30	
	2018	2017
Parliamentary appropriations received and receivable	$ 50,483	$ 39,029
Amounts received and receivable related to prior period	(13,992)	(15,809)
Amounts to be billed (used) in future periods	1,864	(5,045)
Parliamentary appropriations used to fund capital expenditures (note 8)	$ 38,355	$ 18,175

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

(In thousands of Canadian dollars)

12. Fair values of financial instruments

Derivative financial instruments are recorded at fair value on the Condensed Interim 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.

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

	June 30, 2018		March 31, 2018	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial assets[1]	$ 498	$ 498	$ 384	$ 384
Financial instruments measured at amortized cost				
Non-current holdbacks[2]	$ 4,961	$ 4,961	$ 4,338	$ 4,338

[1] The fair value is based on a discounted cash flow model based on observable inputs.
[2] The fair value is determined using expected future cash flows, discounted using published Government of Canada bond rates with similar terms and characteristics.

There were no transfers between levels during the three months ended June 30, 2018, or year ended March 31, 2018.

(In thousands of Canadian dollars)

13. Contractual arrangements

(a) Non-lease arrangements

In the normal course of operations, CATSA enters into contractual arrangements for the supply of goods and services. These contractual arrangements are subject to authorized appropriations and termination rights which allow CATSA to terminate the contracts without penalty at its discretion. The most significant arrangements relate to contracts signed with screening contractors for the provision of screening services, as well as with vendors for screening equipment and related maintenance.

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

	June 30, 2018	March 31, 2018
Operating	$ 2,089,948	$ 2,228,761
Capital	114,701	122,149
Total	$ 2,204,649	$ 2,350,910

(b) Lease arrangements

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

	June 30, 2018	March 31, 2018
No later than 1 year	$ 7,050	$ 6,945
Later than 1 year and no later than 5 years	20,588	22,260
Later than 5 years	1,134	-
Total	$ 28,772	$ 29,205

CATSA's most significant non-cancellable operating lease is the lease for office space at headquarters.

(In thousands of Canadian dollars)

14. Related party transactions

CATSA had the following transactions with related parties for the three months ended June 30, 2018:

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

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

The following table summarizes CATSA's transactions with related parties:

	Three months ended June 30	
	2018	2017
Income	$ 184,080	$ 171,375
Expenses	4,874	3,473

Income from related parties represent parliamentary appropriations for operating expenses and amortization of deferred government funding related to capital expenditures. Expenses presented above for the three months ended June 30, 2018, include $4,569 (2017 – $3,233) 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 Condensed Interim Statement of Financial Position:

	June 30, 2018	March 31, 2018
Receivable from related parties	$ 102,357	$ 131,933
Payable to related parties	(966)	(1,134)
Net receivable from related parties	$ 101,391	$ 130,799

Amounts receivable from related parties consist primarily of $93,233 (March 31, 2018 – $121,399) due from the Government of Canada for parliamentary appropriations, and $9,032 (March 31, 2018 – $10,435) 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.

(In thousands of Canadian dollars)

(b) 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 disclosed in note 9. No other transactions were made during the three month period.

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

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

	Three months ended June 30	
	2018	2017
Decrease in trade and other receivables	$ 40,337	$ 30,070
Decrease in inventories	1,809	902
Decrease in prepaid expenses	205	285
Increase in trade and other payables	24,938	1,878
Decrease in deferred government funding related to operating expenses	(2,014)	(1,187)
	$ 65,275	$ 31,948

The change in trade and other receivables excludes an amount of $11,155 (2017 – $7,633) in relation to government funding related to capital expenditures, as the amount relates to investing activities.

The change in trade and other payables excludes an amount of $5,299 (2017 – $6,197) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.