Notes to Financial Statements

For the year ended March 31, 1998

1. AUTHORITY AND OBJECTIVE

The Canadian Broadcasting Corporation was first established by the 1936 Canadian *Broadcasting Act* and continued by the 1958, 1968 and 1991 Broadcasting Acts. The Corporation is an agent of Her Majesty and all property acquired by the Corporation is the property of Her Majesty.

As the national public broadcaster, the Canadian Broadcasting Corporation provides radio and television services in both official languages incorporating predominantly and distinctively Canadian programs to reflect Canada and its regions to national and regional audiences.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements include the accounts of the Corporation and its proportionate share of the assets, liabilities, revenues and expenses relating to joint venture activities. The financial statements have been prepared in accordance with generally accepted accounting principles. Significant accounting policies are set out below:

a. Parliamentary Appropriations and Deferred Capital Funding

The Government of Canada mainly finances the Corporation. Parliamentary appropriations provided for operating expenditures and downsizing expenses are recorded on the Statement of Operations and Proprietor's Equity. Parliamentary appropriations for depreciable capital expenditures are recorded as deferred capital funding on the Balance Sheet, and are amortized on the same basis and over the same periods as the related capital assets. Parliamentary appropriations for working capital and non depreciable capital assets are credited to Proprietor's Equity.

b. Program Inventory

Program Inventory consists of:

(i) Programs Completed and in Process of Production or Available for Sale

Programs completed and in process of production or available for sale are stated at cost. Cost includes the cost of materials and services, and the share of labour and overhead expenses applicable to programs.

Program costs are charged to operations as the programs are broadcast, deemed unusable, or sold.

(ii) Film and Script Rights

The Corporation enters into contracts for film and script rights. As payments are made under the terms of each contract they are reflected in the accounts as prepaid film rights. The film rights are charged to operations in accordance with the approved program schedule or when deemed unusable.

c. Capital Assets

Capital assets are recorded at cost, less accumulated amortization. The cost of assets constructed by the Corporation includes material, direct labour and related overhead. Assets recorded as capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Amortization is calculated on the straight-line method using rates based on the estimated useful life of the assets as follows:

• Buildings	33 years
• Technical equipment	
Transmitters and towers	20 years
Other	10 years
• Furnishings and office equipment	10 years
• Computers	5 years
• Automotive	5 years

Leasehold improvements are capitalized and amortized over the remaining terms of the respective leases to a maximum period of five years. Amounts included in uncompleted capital projects are transferred to the appropriate capital asset classification upon completion, and are then amortized according to the Corporation's policy.

d. Deferred Charges

Deferred costs incurred in the development of specialty channels and goodwill arising from the acquisition of broadcast undertakings are amortized over seven years based on a normal license period. Deferred costs incurred by joint ventures are amortized over a period of five years. Other deferred charges are amortized over the period of the respective agreements.

e. Pension Cost and Obligation

The Corporation provides pensions based on length of service and final average earnings as classified under defined benefit retirement pension arrangements.

The cost of pension benefits earned by employees is determined using the projected benefit method of actuarial valuation with projected salary increases where appropriate, pro-rated on services and charged to operations as services are rendered. This cost reflects management's best estimate of the pension fund's expected investment yields, and of salary escalations, mortality of members, terminations and ages at which members will retire. The surplus on the introduction of this accounting policy, adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service life of the employee group.

The difference between the accumulated pension expense and the employer's contributions to the Pension Fund is reflected in the balance sheet as a long-term deferred charge or deferred pension liability as the case may be.

f. Employee Termination Benefits and Vacation Pay

Employee termination benefits and vacation pay are expensed as the benefits accrue to employees under their respective terms of employment.

Termination benefits are calculated on an actuarial basis taking into account the future expected payments, the probabilities of payment and discount to the valuation date. The present value of the projected cost is recorded as a liability.

Vacation pay is calculated at the salary levels in effect at the end of the year for all unused vacation pay benefits accruing to employees.

Since a major portion of the liabilities for these items represent costs which will be funded mainly from appropriations received from the Government of Canada in the future, these items do not have an impact upon the Corporation's operating surplus or deficit on a government funding basis.

g. Other Post-employment Benefits

In addition to pension and termination benefits, the Corporation provides life insurance benefits to its retired employees. The costs related to this benefit are expensed as incurred by the Corporation during the post-retirement period.

h. Measurement Uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Employee termination benefits, deferred pension liability and contingent liabilities are the most significant items where estimates are used. Actual results could differ from those estimates.

3. CHANGE IN ACCOUNTING POLICY

Prior to 1998, capital funding received from the Government of Canada was recorded as Proprietor's Equity. Parliamentary appropriations for depreciable capital expenditures are now recorded as deferred capital funding on the Balance Sheet, in order to conform to C.I.C.A. Public Sector Accounting and Auditing Board Exposure Draft on Accounting for Government Assistance, and are amortized on the same basis and over the same periods as the related capital assets. The effect of this change in accounting policy, which has been applied retroactively, is a reduction in Proprietor's Equity and an increase in deferred capital funding on the Balance Sheet of $746,897,000 (1997–$791,877,000), and an increase in net results of operations for the year of $135,120,000 (1997–$116,741,000). This accounting change does not have any impact upon the Corporation's operating surplus or deficit on a government funding basis.

4. PARLIAMENTARY APPROPRIATIONS

Parliamentary appropriations approved and the amounts received by the Corporation during the year are as follows:

a. Parliamentary Appropriations Approved and Received

	1998	1997
	(thousands of dollars)	
Approved appropriations for:		
Operating Funding		
• Annual funding	769,014	818,329
• Transfer from capital funding [1]	–	36,120
• Funding for RCI (Note 5)	(9,360)	–
	759,654	854,449
• Frozen allotment to offset the 1995–1996 repayable advance including imputed interest thereon [2]	(56,669)	–
	702,985	854,449
Funding for downsizing program	–	41,975
Capital Funding (Note 9)	105,740	140,829
• Less transfer to operating funding [1]	–	36,120
• Less transfer to 1998–1999 (1997–1998) fiscal year [1]	15,600	8,000
	90,140	96,709
Working Capital Funding	4,000	4,000

[1] In the event that significant changes in current year requirements occur, amounts are transferred from one vote to another or reprofiled from one fiscal year to the next through Appropriation Acts tabled in the House of Commons.

[2] In 1995–1996, the Corporation received a $50 million repayable advance to be recovered in future years through reduced funding levels.

b. Reconciliation of Net Results of Operations to Government Funding Basis

The Corporation receives a significant portion of its funding through Parliamentary appropriations, which is based primarily on cash flow requirements. Items recognized in the Statement of Operations and Proprietor's Equity in one year may be funded through Parliamentary appropriations in different years. Accordingly, the Corporation has different net results of operations for the year on a government funding basis than on a generally accepted accounting principles basis. These differences are outlined to the right:

	1998	1997
	(thousands of dollars)	
Net results of operations for the year	(35,510)	93,774
Items expensed but funded in other years	30,429	(52,820)
Net results of operations on a government funding basis	(5,081)	40,954
Government funding surplus (deficit), beginning of the year	34,525	(6,429)
Government funding surplus (deficit), end of the year	29,444	34,525

5. SPECIALTY SERVICES AND RADIO CANADA INTERNATIONAL

a. Specialty Services

The Corporation operates CBC Newsworld, Réseau de l'information (RDI) and Galaxie under license conditions that the operations be reported on an incremental cost and revenue basis. All services use previous years' surplus carryforwards to fund current year activities. At March 31, the cumulative net operating surplus carried forward to future years' activities for CBC Newsworld totalled $2.2 million (1997 – $0.5 million) and for RDI, $33,000 (1997 – $7,000). 1997–1998 was Galaxie's first year of operations and the results are according to plan.

	1998			1997		
	Revenue	Expense	Net	Revenue	Expense	Net
			(thousands of dollars)			
CBC Newsworld	55,816	54,122	1,694	54,677	54,817	(140)
RDI	31,263	31,237	26	30,598	30,603	(5)
Galaxie	304	737	(433)			
	87,383	**86,096**	**1,287**	**85,275**	**85,420**	**(145)**

b. Funding for Radio Canada International

	1998	1997
	(thousands of dollars)	
Parliamentary Appropriation (Note 4)	9,360	–
Contribution agreement with Government of Canada	6,000	5,179
Funding for Radio Canada International	**15,360**	**5,179**

6. DOWNSIZING PROGRAM

The Corporation completed its cost reduction efforts to address the impact of the budget cuts announced by the Government of Canada. The downsizing program resulted in the departure of employees through incentive programs and lay-offs.

The Corporation has requested further assistance from the Government of Canada to fund the cost of the downsizing program.

	1998	1997
	(thousands of dollars)	
Employee termination and other costs	(8,431)	18,991
Pension expense [1]	26,767	(38,303)
	18,336	(19,312)

[1] The pension costs of the downsizing program were adjusted upward by $26.8 million (1997 – $38.3 million reduction) to reflect management's revised cost estimates for terminations and retirements.

7. INCOME AND LARGE CORPORATIONS TAXES

The Corporation is a prescribed federal Crown Corporation under Part LXXI of the Income Tax Regulations and is subject to the provisions of the Income Tax Act (Canada). The Corporation is not subject to provincial income taxes on its own activities.

The provision for income and large corporations tax is comprised of:

	1998	1997
	(thousands of dollars)	
Current tax expense (recovery)	(17,815)	4,624
Deferred taxes	20,523	(1,665)
	2,708	2,959

The Corporation's net provision for tax results primarily from large corporations tax.

The Corporation has net timing differences of $75.7 million (1997 – $58.1 million) resulting from items reported for tax purposes in different periods than for accounting purposes, the benefit of which has not yet been recognized in the financial statements. These timing differences generally result from the accrual of pension and severance pay costs, and capital cost allowance on its long term capital lease where funding for the lease obligation is provided over several years. Capital cost allowance is not claimed on other capital assets, as the related capital funding is usually received in full in the same year in which the asset is acquired.

8. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 1998	Net Book Value 1997
		(thousands of dollars)		
Land	35,515	–	35,515	35,560
Buildings	359,123	192,132	166,991	166,475
Technical equipment	1,043,599	614,633	428,966	446,376
Furnishings, office equipment and computers	71,950	49,263	22,687	29,693
Automotive	32,862	21,208	11,654	8,945
Leasehold improvements	7,221	5,601	1,620	2,394
Property under capital leases	511,652	76,692	434,960	450,246
Uncompleted capital projects	39,753	–	39,753	45,410
	2,101,675	959,529	1,142,146	1,185,099

Amortization expense of $15.3 million (1997 – $14.8 million) relates to property under capital lease.

9. DEFERRED CAPITAL FUNDING

	1998	1997
	(thousands of dollars)	
Balance, beginning of year	791,877	811,909
Parliamentary appropriation for depreciable capital expenditures (Note 4)	90,140	96,709
Amortization of deferred capital funding	(135,120)	(116,741)
Balance, end of year	746,897	791,877

10. JOINT VENTURE ACTIVITIES

The Corporation has net equity of $4.0 million (1997 – $5.4 million) in joint business ventures which is accounted for using the proportionate consolidation method.

11. CBC PENSION PLAN

The Corporation maintains a contributory defined benefit pension plan covering substantially all employees of the CBC. Retirement benefits are based on the length of pensionable service and on the average of the best five consecutive years of pensionable salary in the last ten years of employment.

The accrued pension benefits are determined using the projected benefit method prorated on service and management's best estimate of future economic events.

Employees are required to contribute a percentage of their pensionable salary to the Plan, with the Corporation providing the balance of the funding, as required, based on actuarial valuations, which are made at least on a triennial basis.

Projections from an actuarial valuation prepared for accounting purposes show an estimated present value of accrued pension benefits of $2,673.9 million as at March 31, 1998 (1997 – $2,601.0 million) which includes $16.2 million (1997 – $11.4 million) of unfunded retirement benefits. The actuarial value of the pension fund assets as at March 31, 1998 was $2,926.1 million (1997 – $2,765.2 million).

	1998	1997
	(thousands of dollars)	
Current service cost	39,121	35,728
Accrued interest on net pension plan assets	(12,076)	(6,411)
Amortization of past service gains (net)	(22,381)	(16,669)
Adjustment for plan curtailment due to workforce reduction	26,767	(38,303)
CBC pension expense	31,431	(25,655)
Deferred pension liability, beginning of year	97,748	155,314
Pension expense	31,431	(25,655)
Pension plan contributions and benefit payments	(31,540)	(31,911)
Deferred pension liability, end of year	97,639	97,748

12. OBLIGATIONS UNDER CAPITAL LEASES

Capital leases consist mainly of premises occupied by CBC in Toronto.

Future minimum lease payments and obligations are as follows:

	(thousands of dollars)
1999	33,099
2000	33,084
2001	33,039
2002	33,039
2003	33,039
Thereafter to 2027	809,449
Total future minimum payments	974,749
Deduct imputed interest (7.53%) and executory costs	585,554
Obligation under capital lease	389,195
Less current portion	3,850
Long term portion	385,345

CBC owns the land on which the Canadian Broadcasting Centre in Toronto is located.

13. COMMITMENTS

a. Program Related and Other

As at March 31, 1998, commitments for sports rights amounted to $583.5 million; procured programs, film rights and co-productions amounted to $70.9 million and capital assets amounted to $9.8 million for total commitments of $664.2 million.

b. Operating Leases

Future annual payments related to operating leases are as follows:

	(thousands of dollars)
1999	47,076
2000	47,367
2001	38,253
2002	33,692
2003	11,853
2004 – 2062	5,242
Total future payments	183,483

c. Joint Venture Activities

The Corporation's proportionate share of commitments related to joint venture activities totalled $5.5 million.

14. CONTINGENCIES

Various claims and legal proceedings have been asserted or instituted against the Corporation, including some which demand large monetary damages or other relief, which could result in significant expenditures. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable. A provision for these expenditures has been recorded based on management's best estimate. It is reasonably possible that the Corporation may have to settle some of these claims for amounts in excess of established provisions in the near term. Any such costs will be charged to operations as incurred.

15. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership and enters into transactions with other Government departments, agencies and Crown Corporations in the normal course of business on normal trade terms applicable to all individuals and enterprises. Transactions with the Government of Canada are outlined in Note 4.

16. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	1998	1997
	(thousands of dollars)	
Cash provided by (used for):		
Accounts receivable	(74,140)	(1,066)
Program inventory	8,553	9,035
Prepaid expenses	(13,733)	12,305
Deferred income taxes	20,523	(1,665)
Accounts payable and accrued liabilities	32,667	(641)
	(26,130)	17,968

17. FINANCIAL INSTRUMENTS

Short-term investments, accounts receivable and accounts payable are valued at cost, which approximates fair market value. The Corporation invests in the short-term money market (maximum term to maturity 91 days). Securities are limited to those that are 100% guaranteed by the Government of Canada. The overall portfolio yield for the fiscal year ending March 31, 1998 was 3.72% (4.78% at March 31, 1997).

18. YEAR 2000

The Corporation may experience the effects of the Year 2000 Issue before, on, or after January 1, 2000. The effects on operations and financial reporting, if not addressed, may range from minor errors to significant systems failure, which could affect CBC's ability to conduct normal business operations. While plans have been developed to meet internal requirements, with regular reports made to senior management and the Board of Directors, it is not possible to ensure that all aspects of the Year 2000 Issue, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

19. COMPARATIVE FIGURES

Certain of the 1997 comparative figures have been reclassified to conform to the curent year's presentation.