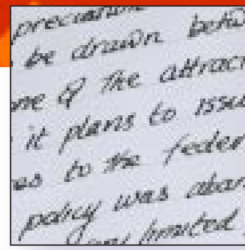

NOTES TO FINANCIAL STATEMENTS

For the year ended March 31, 1997

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

a Basis of Presentation

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.

b Parliamentary Appropriations

The Corporation is mainly financed by the Government of Canada. Parliamentary appropriations are provided for operating expenditures and downsizing expenses and are recorded as income. Parliamentary appropriations for capital and working capital funds are credited to Proprietor's Equity Account.

c 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 or deemed unusable, or are sold.

(ii) Film and Script Rights

The Corporation enters into contracts for script and film broadcasting 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 on an accelerated basis as the programs are broadcast or when deemed unusable.

d Short-Term Investments

Short-term investments which include bank deposits, notes and treasury bills are valued at cost which approximates fair market value.

e Capital Assets

Capital assets are recorded at cost. The cost of assets constructed by the Corporation includes material, engineering services, 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 term 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.

f Deferred Charges and Other Assets

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 costs are amortized over the period of the respective agreements.

g 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.

h Other Post-Employment Benefits

In addition to pension 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.

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

j 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 and deferred pension liability are the most significant items where estimates are used. Actual results could differ from those estimates.

3 PARLIAMENTARY APPROPRIATIONS

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

	1997	1996
	(thousands of dollars)	
Appropriations for:		
Operating Fund		
Annual Operating Fund	818,329	918,229
Transfer from Capital Fund	36,120	45,000
	854,449	***963,229***
Funding for downsizing program	***41,975***	***106,025***[1]
Capital Fund	140,829	142,415
Less: transfer to Operating Fund	36,120	45,000
Less: transfer to 1997–98 fiscal year	8,000	–
	96,709	***97,415***
Working Capital Fund	***4,000***	***4,000***

[1] *Of this amount, a total of $50 million was received in the form of repayable advance which will be recovered from future appropriations, with interest, starting in 1998–1999 on an annual basis until 2009–2010.*

b The Corporation receives a significant portion of its funding through parliamentary appropriation and therefore manages its operations on a government funding basis. The actual expenditures requiring current operating funds are the essential measure of the Corporation's financial operating requirements for the year.

The following summarizes the reconciling items not requiring or generating current operating funds.

	1997	1996
	(thousands of dollars)	
Income items related to capital assets	(202)	(2,611)
Other income items included in the net revenue figure:		
Amortization, employee termination benefits and, vacation pay, deferred pension and other items	4,704	8,927
	4,502	*6,316*
Expense related to operating activities:		
Amortization of capital assets	117,303	137,411
Goodwill and other	7,979	5,108
Interest expense on capital lease	–	(1,384)
Employee termination benefits and vacation pay	4,483	3,596
Program inventory costs	(3,462)	1,900
Deferred pension contribution	(19,263)	(9,527)
	107,040	*137,104*
Less: Income items	(4,704)	(8,927)
Sub-total	*102,336*	*128,177*
Downsizing – Employee termination benefits and vacation pay	(2,985)	(57,547)
Downsizing – Pension plan curtailment	(38,303)	94,909
Income taxes	(1,629)	(18,837)
Net items not requiring current operating funds	***63,921***	***153,018***

4 OTHER REVENUE, NET

This consists of the following items:

	March 31, 1997			March 31, 1996		
	Revenue	Expense	Net	Revenue	Expense	Net
			(thousands of dollars)			
Advertising	293,664	43,142	250,522	305,508	44,041	261,467
Special Programming Events	58,446	55,530	2,916	–	–	–
Specialty Services:						
CBC Newsworld	54,677	54,817	(140)	51,173	51,814	(641)
RDI	30,598	30,603	(5)	27,500	27,908	(408)
Program Sales	12,724	11,833	891	13,598	12,043	1,555
RCI	6,419	16,924	(10,505)	10,080	16,448	(6,368)
Miscellaneous	52,498	12,661	39,837	56,321	16,784	39,537
	509,026	***225,510***	***283,516***	***464,180***	***169,038***	***295,142***

Advertising

Revenues from the sale of advertising time are reflected here, net of the selling and marketing expenses required to generate the revenues.

Special Programming Events

Special programming events are defined as events for which the revenues or expenses are individually significant and are not part of the regular annual programming schedule. For 1996–1997, special programming events include the Olympic Games and the World Cup of Hockey.

Specialty Services – CBC Newsworld and RDI

The Corporation operates CBC Newsworld and RDI under license conditions that the operations be reported on an incremental cost and revenue basis. In compliance with the license conditions, the Corporation will report the above results for 1997, and has reported the results for 1996, to the Canadian Radio-television and Telecommunications Commission.

As at March 31, 1997, the cumulative net operating surplus carried forward to fund CBC Newsworld's future years' activities totalled $0.5 million (1996 – $0.6 million) and for RDI, a surplus of seven thousand dollars (1996 – twelve thousand dollars). These activities are an integral part of the operations of the Corporation.

Program Sales

Revenue generated through the sale of programming to outside broadcasters and the related marketing expenses are included here.

Radio Canada International (RCI)

For 1995–1996 and 1996–1997, the Corporation agreed to subsidize the operations of RCI. Revenue represents funding received from various government departments and agencies.

Miscellaneous

Revenues from the rental and sale of facilities and services, lease of transmitter sites, interest receipts, and joint venture activities are reflected here, partly offset by any incremental expenses related to the revenues.

5 DOWNSIZING PROGRAM

The Corporation continued 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.

Management's best estimate of the costs associated with the three year downsizing program is as follows:

	1997	1996	1995	Total
		(in thousands of dollars)		
Employee termination and special benefits	11,283	99,350	33,274	143,907
Pension expense[1]	(38,303)	94,909	4,000	60,606
Transfer and removal, outplacements and other	7,708	11,242	–	18,950
	(19,312)	205,501	37,274	223,463
Reconciliation to government funding basis				
Unfunded expenses recorded annually as part of normal operations, in previous years[2]	2,985	57,547	23,051	83,583
Pension expense[1]	38,303	(94,909)	(4,000)	(60,606)
Expenses on a government funding basis	***21,976***	***168,139***	***56,325***	***246,440***

Other downsizing costs, which could not be reasonably estimated, will be recorded as incurred.

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

1 *The pension costs of the downsizing program (1996 – $94.9 million) were adjusted downward by $38.3 million to reflect management's revised cost estimates for terminations and retirements.*

2 *Employee termination benefits and vacation pay expensed annually as benefits accrued to employees under their respective terms of employment.*

6 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 Corporation's net provision for tax of $2.9 million (1996 – $3.0 million) is the difference between the provision for income and large corporations taxes of $4.6 million (1996 – $21.9 million) and deferred income tax of $1.7 million (1996 – $18.9 million).

The Corporation has net timing differences resulting from items reported for tax purposes in different periods than for accounting purposes of $58.1 million (1996 – $161.4 million), the benefit of which has not 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.

7 CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 1997	Net Book Value 1996
		(thousands of dollars)		
Land	35,560	–	35,560	35,941
Buildings	348,838	182,363	166,475	168,416
Technical Equipment	1,091,251	644,875	446,376	462,248
Furnishings, office equipment and computers	76,754	47,061	29,693	32,806
Automotive	28,710	19,765	8,945	11,079
Leasehold improvements	7,221	4,827	2,394	2,124
Property under capital leases	511,575	61,329	450,246	465,015
Uncompleted capital projects	45,410	–	45,410	41,427
	2,145,319	***960,220***	***1,185,099***	***1,219,056***

8 DEFERRED CHARGES AND OTHER ASSETS

	Cost	Accumulated Amortization	Net Book Value 1997	Net Book Value 1996
		(thousands of dollars)		
Deferred Charges				
CBC Newsworld	–	–	–	297
Réseau de l'information	5,243	1,459	3,784	4,671
Joint venture activities	2,839	1,135	1,704	2,219
Other agreements	18,509	8,583	9,926	14,218
Goodwill	9,799	9,799	–	7,582
Investments	882	880	2	882
	37,272	***21,856***	***15,416***	***29,869***

9 BUSINESS VENTURE ACTIVITIES

The Corporation has net equity of $5.4 million (1996 – $6.1 million) in joint business ventures which are accounted for using the proportionate consolidation method.

10 DEFERRED PENSION LIABILITY

Projections from an actuarial valuation prepared for accounting purposes show an estimated present value of accrued pension benefits of $2,556.8 million as at March 31, 1997 (1996 – $2,500.4 million) which includes $11.4 million (1996 – $9.0 million) of unfunded retirement benefits. The actuarial value of the pension fund assets as at March 31, 1997 was $2,767.6 million (1996 – $2,562.4 million).

The deferred pension liability as at March 31, 1997 amounting to $97.7 million (1996 – $155.3 million) is the difference between the accumulated pension expense and the employer's contributions to the pension fund.

11 OBLIGATIONS UNDER CAPITAL LEASES

a Canadian Broadcasting Centre, Toronto

Payments under the Broadcasting Centre Lease are tied to the landlord's cost of financing. In 1996–1997, the landlord, Broadcast Centre Trust, refinanced the building on a long-term basis, leading to an amendment of the CBC's lease payment schedule.

The lease payments, under the terms of the amended payment schedule, are now fixed at $33,038,796 per annum until April 2027.

Future minimum lease payments and the obligation under the Broadcasting Centre Lease are as follows:

	(thousands of dollars)
1998	33,039
1999	33,039
2000	33,039
2001	33,039
2002	33,039
Thereafter	842,488
Total minimum future payments	*1,007,683*
Deduct: Imputed interest (7.53%)	602,745
Obligation under capital lease	***404,938***

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

b Other

As at March 31, 1997, the Corporation's obligation related to a capital lease, other than the Broadcasting Centre in Toronto, amounted to $165,000.

12 COMMITMENTS

a Program Related and Other

As at March 31, 1997, commitments for sports rights amounted to $120.1 million; procured programs, film rights and co-productions amounted to $29.3 million and capital assets amounted to $9.6 million for total commitments of $159 million.

b Operating Leases

Future annual payments related to operating leases are as follows:

	(thousands of dollars)
1998	60,778
1999	46,588
2000	31,834
2001	3,714
2002	1,753
2003 – 2062	3,877
Total future payments	***148,544***

c Joint Venture Activities

The Corporation's proportionate share of commitments related to joint venture activities totalled $6.8 million (1996 – $5.7 million).

13 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 reserves in the near term. Any such costs will be charged to operations as incurred.

14 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 notes 3 and 4.

15 NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	1997	1996
	(thousands of dollars)	
Cash provided by (used for):		
Accounts receivable	(1,066)	(5,228)
Program inventory	9,035	(884)
Prepaid expenses	12,305	(3,789)
Deferred income taxes	(1,665)	(18,858)
Accounts payable and accrued liabilities	(5,660)	15,183
Short-term portion of capital leases	40	2
Obligations under capital leases	1,634	(1,384)
Accrued vacation pay	2,358	(16,542)
Employee termination benefits	(41,189)	117,219
	(24,208)	***85,719***

16 COMPARATIVE FIGURES

Certain of the 1996 comparative figures have been reclassified to conform to the current year's presentation.