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**CANADIAN HERITAGE**

**Financial Statements**

**March 31, 2011**

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## Canadian Heritage

### Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2011, and all information contained in these statements rests with the management of Canadian Heritage. These financial statements have been prepared by management in accordance with Treasury Board accounting policies, which are based on Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of Canadian Heritage's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in Canadian Heritage's *Departmental Performance Report*, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout Canadian Heritage; and through conducting an annual assessment of the effectiveness of the system of internal control over financial reporting.

An assessment for the year ended March 31, 2011 was completed in accordance with the *Policy on Internal Control* and the results and action plans are summarized in the annex.


The system of internal control over financial reporting is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

The effectiveness and adequacy of Canadian Heritage's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of Canadian Heritage's operations, and by the Departmental Audit Committee, which provides objective advice and recommendations to the Deputy Minister regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the department's risk management, control and governance frameworks and processes (including accountability and auditing systems).

The financial statements of Canadian Heritage have not been audited.



**Daniel Jean**  
Deputy Minister



**Pablo Sobrino**  
Chief Financial Officer

Gatineau, Canada

Date **AUG 30 2011**

**Canadian Heritage**  
**Statement of Financial Position**  
(unaudited)  
as at March 31

<i>(in thousands of dollars)</i>	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>Financial assets</b>		
Due from the Consolidated Revenue Fund	507,728	553,648
Accounts receivable and advances (note 4)	<u>6,690</u>	<u>5,686</u>
<b>Total financial assets</b>	<u>514,418</u>	<u>559,334</u>
<b>Non-financial assets</b>		
Prepaid expenses	1,993	3,411
Inventory (note 5)	1,852	2,511
Tangible capital assets (note 6)	<u>12,780</u>	<u>14,842</u>
<b>Total non-financial assets</b>	<u>16,625</u>	<u>20,764</u>
<b>TOTAL ASSETS</b>	<u><u>531,043</u></u>	<u><u>580,098</u></u>
<b>LIABILITIES AND EQUITY OF CANADA</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 7)	508,180	557,833
Vacation pay	7,337	8,061
Employee future benefits (note 8)	36,725	38,601
Other liabilities	<u>602</u>	<u>614</u>
<b>Total liabilities</b>	<u>552,844</u>	<u>605,109</u>
<b>Equity of Canada</b>	(21,801)	(25,011)
<b>TOTAL LIABILITIES AND EQUITY OF CANADA</b>	<u><u>531,043</u></u>	<u><u>580,098</u></u>

Contingent liabilities (note 9)  
Contractual obligations (note 10)

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



**Daniel Jean**  
Deputy Minister



**Pablo Sobrino**  
Chief Financial Officer

Gatineau, Canada

Date **AUG 30 2011**

**Canadian Heritage**  
**Statement of Operations**  
(unaudited)  
**for the year ended March 31**

<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
<b>Expenses</b>		
Official Languages	351,250	360,475
Cultural Industries	306,316	314,030
Sport	210,397	232,141
Arts	114,964	148,812
Engagement and Community Participation	88,479	89,531
Promotion of and Attachment to Canada	87,673	154,132
Heritage	45,923	44,897
Internal Services	127,150	135,288
Unallocated	-	2,730
<b>Total expenses</b>	<b>1,332,152</b>	<b>1,482,036</b>
<b>Revenues</b>		
Revenue from the 1979 Federal-provincial Lottery-agreement	66,205	64,891
Miscellaneous revenues	6,372	4,016
Sale of goods and services	464	159
<b>Total revenues</b>	<b>73,041</b>	<b>69,066</b>
 <b>Net cost of operations</b>	 <b>1,259,111</b>	 <b>1,412,970</b>

Segmented information (note 12)

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

**Canadian Heritage**  
**Statement of Equity of Canada**  
(unaudited)  
**for the year ended March 31**

<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
<b>Equity of Canada, beginning of year</b>	(25,011)	(29,258)
Net cost of operations	(1,259,111)	(1,412,970)
Net cash provided by Government of Canada	1,277,283	1,406,358
Change in due from the Consolidated Revenue Fund	(45,920)	(21,929)
Services provided without charge by other government departments (note 11)	<u>30,958</u>	<u>32,788</u>
<b>Equity of Canada, end of year</b>	<u>(21,801)</u>	<u>(25,011)</u>

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

**Canadian Heritage**  
**Statement of Cash Flow**  
(unaudited)  
**for the year ended March 31**

<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
<b>Operating activities</b>		
Net cost of operations	1,259,111	1,412,970
Non-cash items:		
Amortization of tangible capital assets	(2,841)	(2,730)
Loss on disposal of tangible capital assets	(27)	(20)
Services provided without charge by other government departments (note 11)	(30,958)	(32,788)
Adjustments to tangible capital assets	20	16
Variations in Statement of Financial Position:		
Increase in accounts receivable and advances	1,004	3,495
Increase (decrease) in prepaid expenses	(1,418)	1,721
Decrease in inventory	(659)	(1)
Decrease in accounts payable and accrued liabilities	49,653	16,986
Decrease in vacation pay	724	108
Decrease in employee future benefits	1,876	4,589
Decrease in other liabilities	12	45
Cash used in operating activities	<u>1,276,497</u>	<u>1,404,391</u>
<b>Capital investing activities</b>		
Acquisition of tangible capital assets	794	1,992
Proceeds from disposal of tangible capital assets	(8)	(25)
Cash used in capital investing activities	<u>786</u>	<u>1,967</u>
Net cash provided by Government of Canada	<u><u>1,277,283</u></u>	<u><u>1,406,358</u></u>

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

**Canadian Heritage**  
**Notes to the Financial Statements**  
(unaudited)  
**for the year ended March 31, 2011**

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**1. Authority and Objectives**

The Department of Canadian Heritage was established in 1995 under the *Department of Canadian Heritage Act*.

Canadian Heritage is responsible for formulating policies and delivering programs that help all Canadians participate in their shared cultural and civic life.

Canadian Heritage's work is structured around the following three strategic outcomes:

- Canadian artistic expressions and cultural content are created and accessible at home and abroad;
- Canadians share, express and appreciate their Canadian identity; and
- Canadians participate and excel in sport.

The Department of Canadian Heritage is specifically responsible for formulating and implementing cultural policies related to copyright, foreign investment and broadcasting, as well as policies related to arts, heritage, official languages, sports, state ceremonial and protocol, and Canadian symbols.

The program activities include:

- **Arts:** This program activity is necessary to improve Canadians' direct access to varied artistic experiences, and to contribute to the sustainability of the arts sector. This is accomplished through funding programs that support: the presentation of professional arts festivals or performing arts series; the improvement of arts and heritage infrastructure; the improvement of business and management capacity of arts and heritage organizations; a greater integration of arts and heritage within municipal planning; as well as institutions that offer training of the highest calibre, in preparation for professional artistic careers.
- **Cultural Industries:** This program activity supports the Canadian cultural sector to ensure that a range of Canadian cultural content is produced and is accessible to domestic and international audiences. It also creates conditions that foster sustainability of the Canadian cultural industries. This program activity aims to enable Canadian creators, entrepreneurs, cultural exporters, producers and cultural industries to develop, market, and export Canadian cultural content. This is achieved through delivering programs and services in the form of grants, contributions, tax credits, and policy, regulatory and legislative measures.
- **Heritage:** This program activity is necessary to ensure that Canada's cultural heritage is preserved and accessible to Canadians today and in the future. It enables the heritage sector to improve professional knowledge, skills and practices, to preserve and present heritage collections and objects, and to create and circulate exhibitions and other forms of heritage content. This is accomplished by providing funding such as grants, contributions and tax incentives; expertise, information, training and other services; and regulatory and legislative measures.
- **Promotion of and Attachment to Canada:** This program activity promotes Canadian identity through building trust, pride and sense of national purpose in Canadians. It represents and celebrates Canada to Canadians and to the world, showcasing ingenuity, achievements, innovations, excellence and leadership; it expresses shared values, cultural diversity and place in the global community. It also promotes civic education, participation among young Canadians through exchanges, forums and community

**Canadian Heritage**  
**Notes to the Financial Statements**  
(unaudited)  
**for the year ended March 31, 2011**

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service, as well as provides them with the opportunity to learn about and understand Canada's society, diversity, history and institutions.

- **Engagement and Community Participation:** This program activity aims to ensure that Canadians are engaged and have the opportunity to participate in the civil, social and cultural aspects of life in Canada and in their communities. This is accomplished through funding programs and initiatives that support the efforts of communities to: build stronger citizen engagement and social inclusion through the performing and visual arts; express, celebrate and preserve local heritage; contribute to increasing the respect for and awareness of human rights in Canada and develop innovative and culturally appropriate solutions to the social, cultural, economic and other obstacles that impede Aboriginal peoples' community and personal prospects. This program activity has strong social benefits, as it contributes to the preservation of the history and identity of Canada's diverse communities, while offering a way for traditions and identities to evolve over time. The program activity supports the Department's mandate to strengthen Canadian identity and values and build attachment to Canada.
- **Official Languages:** Canadian Heritage is responsible for the planning, implementation and management of the Official Languages Support Programs pertaining to the promotion of linguistic duality within Canada and the development of official-language minority communities, in accordance with Canadian Heritage's mandate pursuant to article 43 of the *Official Languages Act*. It connects to the Government Outcome "A diverse society that promotes linguistic duality and social inclusion". Canadian Heritage plays a coordination and support role among federal institutions in the implementation of their commitment to the development of official-language minority communities and to the promotion of linguistic duality, as conferred by article 42 of the *Official Languages Act*. Canadian Heritage is also responsible for the horizontal coordination of the Official Languages Program covering all activities of federal institutions subject to the *Official Languages Act*, including language of service or of work, support for linguistic duality within Canada and support for the development of official-language minority communities.
- **Sport:** This program activity promotes development and excellence in sport among Canadians and Canadian communities. This is accomplished through support for high-performance athletes in national and international sporting events, enhancing Canada's ability to host national and international sporting events and supporting the development of excellence in coaching and sports organizations. In recent years this program has been expanded to include promoting participation in sports by Canadians of all ages and abilities. This program activity provides funding, expertise and other services to Canadian athletes, sport organizations and event organizers.
- **Internal Services:** Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. These groups are: Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Services; Acquisition Services; and Travel and Other Administrative Services. Internal Services include only those activities and resources that apply across an organization, and not to those provided specifically to a program.



**Canadian Heritage**  
**Notes to the Financial Statements**  
(unaudited)  
**for the year ended March 31, 2011**

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**2. Summary of Significant Accounting Policies**

These financial statements have been prepared in accordance with the Treasury Board accounting policies stated below, which are based on Canadian generally accepted accounting principles for the public sector. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles.

Significant accounting policies are as follows:

a) Parliamentary authorities

The Department of Canadian Heritage is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to Canadian Heritage do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting.

b) Consolidation

These consolidated financial statements include the accounts of the following sub-entities that are under the control of Canadian Heritage: Canadian Conservation Institute and Canadian Heritage Information Network. The accounts of these sub-entities have been consolidated with those of Canadian Heritage and all inter-organizational balances and transactions have been eliminated.

c) Net Cash Provided by Government of Canada

The Department of Canadian Heritage operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by Canadian Heritage is deposited to the CRF and all cash disbursements made by Canadian Heritage are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the federal Government.

d) Due from the Consolidated Revenue Fund

Amounts due from the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that Canadian Heritage is entitled to draw from the CRF without further appropriations to discharge its liabilities.

e) Accounts receivable

Accounts receivable are stated at the lower of cost and net recoverable value; a valuation allowance is recorded for receivables where recovery is considered uncertain.

**Canadian Heritage**  
**Notes to the Financial Statements**  
(unaudited)  
**for the year ended March 31, 2011**

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f) **Conditionally Repayable Contributions**

Conditionally repayable contributions are contributions that, all or part of which become repayable, if conditions specified in the contribution agreement come into effect. Accordingly, they are not recorded on the Statement of Financial Position until such time as the conditions specified in the agreement come into effect at which time, they are recorded as a receivable and a reduction in transfer payment expenses. An estimated allowance for uncollectibility is recorded where appropriate.

g) **Inventory**

Inventory consists of parts, material and supplies held for future program delivery and not intended for resale. Inventory is valued at the actual cost. If there is no longer any service potential, inventory is valued at the lower of cost or net realizable value.

h) **Tangible capital assets**

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

<b>Asset class</b>	<b>Amortization period</b>
Machinery and equipment	5 and 10 years
Computer Hardware	5 years
Computer Software	3 and 5 years
Vehicles	7 and 10 years
Leasehold improvements	Lesser of the remaining term of lease or useful life of the improvement

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

i) **Employee future benefits**

- **Pension benefits:** Eligible employees participate in the Public Service Pension Plan, a multi-employer pension plan administered by the Government. The Department of Canadian Heritage's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require Canadian Heritage to make contributions for any actuarial deficiencies of the Plan.

**Canadian Heritage**  
**Notes to the Financial Statements**  
(unaudited)  
**for the year ended March 31, 2011**

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- **Severance benefits:** Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

j) **Contingent liabilities**

Contingent liabilities are potential liabilities, which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

k) **Revenues**

Revenues from sale of goods and services are recognized in the accounts based on the goods and services provided in the year.

Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.

l) **Expenses**

Expenses are recorded on an accrual basis:

- Grants are recognized in the year in which the conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement, provided that the transfer is authorized and a reasonable estimate can be made.
- Vacation pay is accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other government departments for accommodation, employer contributions to the health and dental insurance plans, legal services and workers' compensation are recorded as operating expenses at their estimated cost.

m) **Foreign currency transactions**

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect at year-end. Gains and losses resulting from foreign currency

**Canadian Heritage**  
**Notes to the Financial Statements**  
(unaudited)  
**for the year ended March 31, 2011**

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transactions are included in the miscellaneous revenues and other operating expenses on the statement of operations.

n) **Measurement uncertainty**

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, the liability for employee future benefits, the useful life of tangible capital assets and the allowance for doubtful accounts. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

**Canadian Heritage**  
**Notes to the Financial Statements**  
(unaudited)  
**for the year ended March 31, 2011**

**3. Parliamentary Authorities**

The Department of Canadian Heritage receives most of its funding through annual Parliamentary authorities. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, Canadian Heritage has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

**a) Reconciliation of net cost of operations to current year authorities used**

<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
Net cost of operations	1,259,111	1,412,970
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(2,841)	(2,730)
Loss on disposal of tangible capital assets	(27)	(20)
Adjustments to tangible capital assets	-	16
Services provided without charge by other government departments	(30,958)	(32,788)
Decrease (increase) in allowance for doubtful accounts	(501)	307
Decrease in vacation pay	724	108
Decrease in employee future benefits	1,876	4,589
Increase in accounts payable and accrued liabilities not charged to authorities	-	(235)
Revenue not available for spending	66,596	65,637
Refund of prior years' expenditures	18,461	23,209
Outstanding spendable revenue	17	(160)
Disposal of non-capital assets	2,457	6
	<u>55,804</u>	<u>57,939</u>
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets	794	1,992
Increase (decrease) in prepaid expenses	(1,418)	1,721
Decrease in inventory	(659)	(1)
Other adjustment	-	12
	<u>(1,283)</u>	<u>3,724</u>
<b>Current year authorities used</b>	<b>1,313,632</b>	<b>1,474,633</b>

**Canadian Heritage**  
**Notes to the Financial Statements**  
(unaudited)  
**for the year ended March 31, 2011**

**b) Authorities provided and used**

<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
Authorities provided:		
Vote 1 – Operating expenditures	236,521	304,128
Vote 5 – Grants and contributions	1,071,951	1,180,101
Statutory amounts	32,302	32,224
Less:		
Authorities available for future years	(2,464)	(6)
Lapsed: Operating expenditures (1)	(15,526)	(25,901)
Lapsed: Grants and contributions (2)	(9,152)	(15,913)
<b>Current year authorities used</b>	<b>1,313,632</b>	<b>1,474,633</b>

(1) The lapse of \$15.5 million in Operating expenditures includes an amount of \$1.2 million of frozen allotments (funds withheld by the Treasury Board which can not be spent by Canadian Heritage).

(2) The lapse of \$9.2 million in Grants and contributions includes an amount of \$6.4 million that has been approved to be carried over to 2011-12.

**4. Accounts receivable and advances**

The following table presents details of Canadian Heritage's accounts receivable and advances:

<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
Receivables from external parties	4,256	4,766
Advances related to Expo 2010	2,677	-
Receivables from other government departments and agencies	562	1,586
Employee advances	16	20
	<b>7,511</b>	<b>6,372</b>
Allowance for doubtful accounts on receivables from external parties	(821)	(686)
<b>Total</b>	<b>6,690</b>	<b>5,686</b>

**Canadian Heritage**  
**Notes to the Financial Statements**  
(unaudited)  
**for the year ended March 31, 2011**

**5. Inventory**

The following table presents details of the inventory, measured at cost using the actual cost method:

<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
Promotional items	1,736	2,413
Gift Bank	116	98
<b>Total</b>	<b>1,852</b>	<b>2,511</b>

The cost of consumed inventory recognized as an expense in the Statement of Operations is \$1.4 million in 2010-2011 (\$0.8 million in 2009-2010).

**6. Tangible capital assets**

*(in thousands of dollars)*

Capital asset class	Cost					Accumulated Amortization					Net Book Value	
	Opening balance	Acquisitions	Disposals and write-offs	Other adjustments	Closing balance	Opening Balance	Amortization	Disposals and write-offs	Other adjustments	Closing balance	2011	2010
Machinery and equipment	5,618	-	45	-	5,573	2,963	514	41	-	3,436	2,137	2,655
Computer Hardware	4,140	650	277	-	4,513	2,227	615	264	-	2,578	1,935	1,913
Computer Software	4,823	-	-	-	4,823	4,105	455	-	-	4,560	263	718
Vehicles	272	-	56	32	248	160	26	38	12	160	88	112
Leasehold improvements	13,140	144	-	-	13,284	3,696	1,231	-	-	4,927	8,357	9,444
<b>Total</b>	<b>27,993</b>	<b>794</b>	<b>378</b>	<b>32</b>	<b>28,441</b>	<b>13,151</b>	<b>2,841</b>	<b>343</b>	<b>12</b>	<b>15,661</b>	<b>12,780</b>	<b>14,842</b>

**7. Accounts payable and accrued liabilities**

The following table presents details of Canadian Heritage's accounts payable and accrued liabilities:

<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
Accounts payable to external parties	504,965	548,723
Accounts payable to other government departments and agencies	2,509	8,869
Accrued salaries, wages and employee benefits	706	241
<b>Total</b>	<b>508,180</b>	<b>557,833</b>

**Canadian Heritage**  
**Notes to the Financial Statements**  
(unaudited)  
**for the year ended March 31, 2011**

**8. Employee future benefits**

**(a) Pension benefits**

Canadian Heritage's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and Canadian Heritage contribute to the cost of the Plan. The 2010-11 expense amounts to \$27.4 million (\$29.7 million in 2010), which represents approximately 1.9 times (1.9 times in 2010) the contributions by employees.

Canadian Heritage's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

**(b) Severance benefits**

Canadian Heritage provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future authorities. Information about the severance benefits, measured as at March 31, is as follows:

<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
Accrued benefit obligation, beginning of year	38,601	43,190
Expense (adjustment) for the year	1,387	(1,322)
Benefits paid during the year	(3,263)	(3,267)
<b>Accrued benefit obligation, end of year</b>	<b>36,725</b>	<b>38,601</b>

**9. Contingent liabilities**

Claims have been made against the Department in the normal course of operations. These claims include items with pleaded amounts and other for which no amount is specified. Based on Department's assessment, legal proceedings for claims estimated at \$0.4 million (\$0 in 2009-2010) were pending at March 31, 2011. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements.



**Canadian Heritage**  
**Notes to the Financial Statements**  
(unaudited)  
**for the year ended March 31, 2011**

**10. Contractual Obligations**

The nature of Canadian Heritage's activities can result in some large multi-year contracts and obligations whereby Canadian Heritage will be obligated to make future payments in order to carry out its transfer payment programs or when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

<i>(in thousands of dollars)</i>	2012	2013	2014	2015	2016 and thereafter	Total
Transfer payments	313,137	298,635	14,947	10,447	-	637,166

**11. Related Party Transactions**

Canadian Heritage is related as a result of common ownership to all Government of Canada departments, agencies and Crown Corporations. Canadian Heritage enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, Canadian Heritage has an agreement with Parks Canada for the provision of functional services related to the financial system. During the year, Canadian Heritage received common services which were obtained without charge from other Government departments as disclosed below.

**(a) Services provided without charge by other government departments**

During the year, Canadian Heritage received services without charge from certain common service organizations related to accommodation, legal services, the employer's contribution to the health and dental insurance plans and workers' compensation coverage. These services provided without charge have been recorded in Canadian Heritage's Statement of Operations as follows:

<i>(in thousands of dollars)</i>	2011	2010
Employer's contribution to the health and dental insurance plans	13,858	14,920
Accommodation	15,993	16,460
Legal services	1,085	1,377
Workers' Compensation	22	31
<b>Total</b>	<b>30,958</b>	<b>32,788</b>

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada, are not included in Canadian Heritage's Statement of Operations.

**Canadian Heritage**  
**Notes to the Financial Statements**  
(unaudited)  
**for the year ended March 31, 2011**

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**(b) Other transactions with related parties**

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<i>(in thousands of dollars)</i>	<u>2011</u>	<u>2010</u>
Expenses – Other Government departments and agencies	38,275	65,772
Revenues – Other Government departments and agencies	181	728

**Canadian Heritage**  
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(unaudited)  
**for the year ended March 31, 2011**

**12. Segmented information**

Presentation by segment is based on Canadian Heritage's program activity architecture. The presentation by segment is based on the same accounting policies as described in the summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main program activities, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

	<i>(in thousands of dollars)</i>											
	Official Languages	Cultural Industries	Sport	Arts	Engagement and Community Participation	Promotion of and Attachment to Canada	Heritage	Internal Services	Unallocated	2011	2010	
<b>Transfer payments</b>												
Non-profit organizations	70,908	154,064	167,073	98,219	74,438	46,355	14,483	-	-	625,540	708,671	
Other levels of government within Canada	264,626	340	-	5,404	193	1,158	10	-	-	271,731	286,907	
Industry	-	111,023	-	-	-	1	-	-	-	111,024	108,014	
Individuals	-	-	25,494	-	-	1,925	-	-	-	27,419	27,561	
Other countries and international organizations	49	11,933	1,646	-	-	-	-	-	-	13,628	13,279	
<b>Total transfer payments</b>	<b>335,583</b>	<b>277,360</b>	<b>194,213</b>	<b>103,623</b>	<b>74,631</b>	<b>49,439</b>	<b>14,493</b>	<b>-</b>	<b>-</b>	<b>1,049,342</b>	<b>1,144,432</b>	
<b>Operating expenses</b>												
Salaries and employee benefits	12,739	25,003	13,048	9,826	11,857	15,427	19,316	94,798	-	202,014	216,060	
Professional services	559	913	717	273	584	6,588	4,337	13,988	-	27,959	54,057	
Accommodation	889	1,656	925	640	589	2,303	1,849	7,142	-	15,993	16,460	
Information	59	67	100	44	22	8,242	1,071	604	-	10,209	19,427	
Utilities, materials and supplies	452	425	308	181	120	2,610	1,079	2,704	-	7,879	9,660	
Travel and relocation	315	193	613	197	411	1,647	438	1,610	-	5,424	7,918	
Freight and communications	184	317	149	57	93	311	263	2,805	-	4,179	5,112	
Amortization	12	8	20	4	19	12	1,537	1,229	-	2,841	2,730	
Repairs and maintenance	168	141	113	48	32	53	827	1,136	-	2,518	2,581	
Rentals	47	51	74	12	68	997	672	539	-	2,460	2,900	
Loss on disposal of capital assets	-	-	-	-	-	-	-	27	-	-	20	
Other operating expenses	243	182	117	59	53	44	41	568	-	1,307	679	
<b>Total operating expenses</b>	<b>15,667</b>	<b>28,956</b>	<b>16,184</b>	<b>11,341</b>	<b>13,848</b>	<b>38,234</b>	<b>31,430</b>	<b>127,150</b>	<b>-</b>	<b>282,810</b>	<b>337,604</b>	
<b>Total expenses</b>	<b>351,250</b>	<b>306,316</b>	<b>210,397</b>	<b>114,964</b>	<b>88,479</b>	<b>87,673</b>	<b>45,923</b>	<b>127,150</b>	<b>-</b>	<b>1,332,152</b>	<b>1,482,036</b>	
<b>Revenues</b>												
Revenue from the 1979 Federal-provincial Lottery agreement	-	-	-	-	-	-	-	-	66,205	66,205	64,891	
Miscellaneous revenues	-	3,525	-	-	-	2,440	-	-	407	6,372	4,016	
Sale of goods and services	-	34	-	-	-	170	260	-	-	464	159	
<b>Total revenues</b>	<b>-</b>	<b>3,559</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,610</b>	<b>260</b>	<b>-</b>	<b>66,612</b>	<b>73,041</b>	<b>69,066</b>	
<b>Net cost of operations</b>	<b>351,250</b>	<b>302,757</b>	<b>210,397</b>	<b>114,964</b>	<b>88,479</b>	<b>85,063</b>	<b>45,663</b>	<b>127,150</b>	<b>(66,612)</b>	<b>1,259,111</b>	<b>1,412,970</b>	