

# Accounting and Reporting Requirements

Applicable to 2007-2008 Canadian Television Fund Applications

In effect as of January 1, 2006

Note: These Reporting Requirements, released January 1, 2006, supersede and replace the previous requirements published in March 2003 and are applied retroactively to all Productions for which financing agreements were entered into by the CTF and /or TFC on or after April 1st, 2005.

TFC Television Business Unit



# TABLE OF CONTENTS

<b>1.</b>	<b>INTRODUCTION .....</b>	
<b>2.</b>	<b>PRODUCTION/DISTRIBUTION COMPANY .....</b>	
2.1	Certification of Final Activity Cost Statements by Independent Public Accountants .....	
2.2	Documents related to the Production .....	
<b>3.</b>	<b>BUDGETS .....</b>	
<b>4.</b>	<b>ACTIVITY COST ACCOUNTING AND REPORTING RULES .....</b>	
4.1	General rules .....	
4.2	Specific Budget Allocations and Locked Items .....	
4.3	Discounts and credit notes .....	
4.4	Completion guarantee rebates .....	
4.5	Cost of interim financing (for production activities only) .....	
4.6	Assets acquired in the course of the Production (for production activities only) .....	
4.7	Non-Canadian costs .....	
4.8	Foreign Currency Transactions .....	
4.9	Production costs paid to broadcasters and distributors .....	
4.10	Related-party transactions (RPT) .....	
4.11	Versioning .....	
<b>5.</b>	<b>INDEPENDENT PUBLIC ACCOUNTANT RESPONSIBILITIES .....</b>	
<b>APPENDIX 1 .....</b>		<b>17</b>
STANDARD AUDIT REPORT .....		17
<b>APPENDIX 2 .....</b>		<b>19</b>
STANDARD REPORT ON REVIEW PROCEDURES .....		19
<b>APPENDIX 3 .....</b>		<b>21</b>
PRODUCTION AND DISTRIBUTION AFFIDAVIT .....		21
<b>APPENDIX 4 .....</b>		<b>23</b>
DEVELOPMENT AFFIDAVIT .....		23
<b>APPENDIX 5 .....</b>		<b>25</b>
EXAMPLE NOTES TO THE FINAL CERTIFIED ACTIVITY COST STATEMENT .....		25
<b>APPENDIX 6 .....</b>		<b>31</b>
GLOSSARY OF TERMS .....		31
<b>APPENDIX 7 .....</b>		<b>34</b>
CALCULATION OF INTERIM FINANCING COSTS CHARGED BY A RELATED PARTY .....		34

# 1. INTRODUCTION

This document presents the guidelines established by the CANADIAN TELEVISION FUND (CTF) and TELEFILM CANADA (TFC) with respect to the accounting and reporting of Production costs (“Reporting Requirements”).

These revised Reporting Requirements amend and replace the Accounting and Reporting Requirements published on March 26, 2003.

These Reporting Requirements are intended for all television program, feature film and new media producers and distributors receiving funding under the CTF and/or TFC. They aim to convey the specific requirements and rules of the CTF and TFC concerning the accounting and reporting of Production costs, with particular regard to the preparation of final cost reports (“FCR”) and final certified activity cost statements (“FCACS”).

These Requirements could be applied retroactively to all Productions for which financing agreements were entered into by the CTF and /or TFC on or after April 1<sup>st</sup>, 2005.

**For TFC purposes, “Production” refers to television programs or series, feature film and new media development, production and distribution activities. “Production” also applies to any other financed activity for which a final cost report is required.**

**For CTF purposes, “Production” refers to television programs or series and feature film production activities only.**

Please see [Appendix 6](#) attached for a detailed list of the definition of terms and associated acronyms utilized within these Reporting Requirements (Glossary of Terms).

## Information on the Organizations

The Canadian Television Fund was created in 1996 to support the production and broadcast of high quality, distinctively Canadian television programs. The result of a public-private partnership, the CTF is financed by contributions from the Government of Canada, the Canadian cable and direct-to-home satellite industries and Telefilm Canada.

Telefilm Canada is a Crown corporation, reporting to the Department of Canadian Heritage. It is notably governed by its constitutive act, as amended, by part VIII of the former *Financial Administration Act* (Chapter F-10, R.S.C. 1970, as it read immediately before September 1, 1984) and by certain articles of the current Financial Administration Act (FAA), which contains, in its former and current version, requirements applicable to Telefilm.

In order to ensure that the contributions received by the approved applicants are used in conformity with the objectives of the CTF and TFC, the CTF and TFC require that Production and Distribution Companies provide certain financial reports including statements of Production costs. The CTF and TFC are entitled to examine the books of account and related records of these companies to ensure that they are in compliance with these Reporting Requirements as set out in our standard contractual agreements between the CTF and/or TFC and the Production/Distribution Company (the “Contractual Agreements”, as defined in the Glossary of Terms).

These Reporting Requirements are a result of collaboration between the CTF and TFC and in consultation with PricewaterhouseCoopers LLP. These Reporting Requirements were developed to establish a national standard for the film, television and new media industries for Productions that seek public funding through CTF and/or TFC.

The Canada Revenue Agency (CRA) and the Canadian Audio-Visual Certification Office (CAVCO) support the implementation of these standard criteria ensuring a common basis of assessment.

## **2. PRODUCTION/DISTRIBUTION COMPANY**

The CTF and TFC's Reporting Requirements with respect to Production and Distribution Companies include:

- A. The maintenance of proper books of account and related records throughout the Production for which financing has been provided including:
  - Separate books of account and related records for each Production.
  - The maintenance of separate and distinct bank account(s) for each Production into which all Production financing must be deposited, and from which all Production costs should be paid.
- B. Subject to section 2.1, a final cost report (FCR) and a final certified activity cost statement (FCACS) for each Production financed by the CTF and/or TFC must be submitted with the applications for final drawdown or payment (Final Payment Application) to be filed by the Production/Distribution Company in accordance with the dates set out in the applicable Contractual Agreement. The FCR must be prepared in the standard industry format and be accompanied by explanatory notes for substantive variances from the Budget, and any other non-standard entries. The FCACS must be prepared in accordance with the Generally Accepted Accounting Principles (GAAP) that are published in the Canadian Institute of Chartered Accountants (CICA) Handbook and these Reporting Requirements.
- C. The Production/Distribution Company must ensure that its accounting personnel, both permanent and contractual, fully comprehend GAAP and these Reporting Requirements.

D. The Production/Distribution Company must also ensure that its management and senior finance personnel have:

- Familiarized themselves with the CTF and/or TFC's required documentation dealing with the accounting and reporting of financial information. Such documentation, among others, includes:
  - i. Contracts and letters of agreement entered into with the CTF and/or TFC (accompanied by any subsequent amendments);
  - ii. Correspondence exchanged between the CTF and/or TFC and the Production/Distribution Company or its representatives (legal advisors and independent accountants/auditors);
  - iii. The Budget;
  - iv. These Reporting Requirements;
  - v. The Contractual Agreements;
  - vi. The CTF and TFC Application Form for the Production;
  - vii. The applicable CTF and/or TFC Guidelines and Policies (e.g. Producer fees and corporate overhead Policy);
  - viii. Other contractual agreements, broadcast licence agreements and distribution agreements should they exist.
- Taken all necessary steps, when in doubt, to obtain clarification from the CTF and TFC as to the interpretation of these Reporting Requirements and any other of the CTF and TFC's official documentation and its binding clauses.

## **2.1 Certification of Final Activity Cost Statements by Independent Public Accountants**

For Productions with a budget in excess of \$500,000, the CTF and TFC require a FCACS accompanied by an independent auditor's report. For Productions with a budget in excess of \$200,000 but less than or equal to \$500,000, the CTF and TFC require a FCACS accompanied by an Independent Public Accountant's review engagement report. For Productions with a budget of less than or equal to \$200,000, the Production/Distribution Company may submit an uncertified FCR, supported by an Affidavit (as set out in [Appendix 3](#)). However, CTF and TFC reserve the right that an audit or review engagement be performed, regardless of the budget level.

- In cases of an audit or review mandate, the Independent Public Accountant selected by the Production/Distribution Company must be a member in good standing with a professional organisation authorized for this type of work and with its provincial institute (the "Independent Public Accountant").
- In addition to carrying out its work in accordance with generally accepted auditing standards, the Independent Public Accountant must be familiar with the industry and its practices and with these Reporting Requirements.

- The Production/Distribution company is required to provide to its Independent Public Accountant, a copy of all documents regarding the production, including the present Accounting and Reporting Requirements (see following section).

## **2.2 Documents related to the Production**

The Production/Distribution Company is required to retain all documents related to the Production at its place of business or in an archival facility for a period of five years from the year in which the Production was completed (as per the auditor's report, the review engagement report or the affidavit). Among others, these documents include the following:

- All agreements entered into with financiers of the Production;
- Correspondence exchanged between financiers and the Production/Distribution Company or its representatives;
- Standard books of account (detailed general ledger, general journal, revenue and disbursement journal, accounting entries, payroll register, etc.);
- Exploitation reports and their relative supporting documents;
- Bank reconciliation and monthly bank statements;
- Statement of cash flow, including cash received from all sources of financing, cash outflows in respect of Production costs, reconciling to the cash balance in the general ledger at the end of each month;
- Cancelled cheques and/or disbursement vouchers and bank debit notes;
- Bank deposit slips;
- Purchase invoices and/or supplier statements;
- Purchase orders or similar authorization for expenditures, signed by authorized personnel of the Production/Distribution Company;
- Expense accounts and petty cash reports with corresponding receipts;
- Duly executed employee contracts; and
- A list of all affiliated, associated or related companies or entities.

The Production/Distribution Company and the individual producer(s) must take all necessary precautions to ensure that all financial records of the Production/Distribution Company related to the Production including clerical or computerized records are retained and made accessible over the five-year period. Care must be taken to ensure records held by terminated personnel are recovered prior to their departure.

## **3. BUDGETS**

All Production financing applications submitted to the CTF and/or TFC must be accompanied by a detailed estimate of the total costs (the "Budget" as defined in the Glossary of Terms attached).

The following should be considered when preparing the Budget and submitting it to the CTF and/or TFC:

- The participation of the CTF and/or TFC is based in part on its assessment of the costs provided for in the Budget;

- Any costs that the CTF and/or TFC deems excessive, inflated or unreasonable may cause the CTF and/or TFC to adjust the amount of its participation;
- The Budget is evaluated and approved by the CTF and/or TFC;
- Approval of the Budget signifies the CTF and/or TFC's **provisional** acceptance of the estimated Production expenses provided therein. Final approval of the actual expenses is only given once the following steps have been performed by the CTF and TFC
  - Analysis of the FCACS
  - Analysis of the documentation submitted with the Final Payment Application
  - Any subsequent audit or examination performed by TFC or the CTF if required, provided that the documents noted above fulfill all contractual requirements and are in accordance with these Reporting Requirements;
- Approval of the Budget by the CTF and/or TFC must not be interpreted as final acceptance of the expense items provided for therein. In no case may the Budget serve as the sole justification for expense items.

## 4. ACTIVITY COST ACCOUNTING AND REPORTING RULES

These Reporting Requirements were developed to take into account the requirements and responsibilities incumbent on the CTF and TFC and the Production/Distribution Company. In some cases, they supplement GAAP, in others, they constitute exceptions to these principles.

### 4.1 General rules

#### 4.1.1 Supporting Documentation for Expenses

Production expenses must be directly related to the Production and be supported by appropriate invoices or other similar relevant documentation which, to the extent possible, provide a detailed description of the expenses charged, the date paid, the title of the Production and the name of the Production/Distribution Company.

Any expense for which there is no adequate supporting document, will be considered inadmissible.

To the extent possible, all supporting documentation must correspond to the original document provided by sources external to the Production/Distribution Company and be corroborated by the relevant Production account bank statements and cancelled cheques.

### **4.1.2 Accounts Payable, Accruals**

Certain financing partners do not release their final payment(s) until receipt of applicable final documentation (including the FCACS), resulting in a temporary deficient cash flow. Therefore, some accrued expenses and any estimated costs to complete will continue to be payable at the time of submission of the Final Payment Application (the Unpaid Costs).

As a general rule, the total of these Unpaid Costs should correspond to the total of funds to be received from the underlying financing sources for which no related interim financing was provided.

The Production/Distribution Company must indicate, by way of notes to the FCR, the current total of all Unpaid Costs at the time of the preparation of the FCR allocated to the applicable budget code and set out in the applicable column of the FCR.

In addition to the above requirements, the Independent Public Accountant must certify the note disclosure in the FCACS of the accrued Unpaid Costs in the form described in [Appendix 5](#).

## **4.2 Specific Budget Allocations and Locked Items**

### **4.2.1 Producer fees (for production activities only)**

Producer fees (summary code 4 of section A of the Budget) include remuneration payable (but exclude travel & living -- see 4.2.1.1 below) from pre-production, including development, through delivery and final cost reporting. These fees constitute a contractual fixed amount that the CTF and TFC allow without additional justification. Amounts charged as producer fees must not, however, exceed the amounts specified in the applicable Policies<sup>1</sup>, Guidelines and/or Contractual Agreements. The CTF and TFC reserve the right to audit the Producer fees at its sole option.

#### **4.2.1.1 Producer expenses**

A producer may incur expenses other than producer fees which may be charged to the Production. These expenses are usually for travel or entertainment. Such costs are eligible outside the cap, as per the Policies<sup>1</sup>, only if substantiated by supporting documentation, were incurred in the course of the Production and are not subject to special conditions stipulated in the Policies, Guidelines and/or Contractual Agreements. Under no circumstances will expenses incurred for attendance or other participation at Festivals, Markets, or awards be considered eligible.

### **4.2.2 Overhead allocation**

This item in the Budget (item code 72.01 within section D of the Budget) is an umbrella allocation for an apportionment of corporate overhead expenses (e.g. rental of corporate office space, maintenance and repair expenses, office equipment, supplies, administrative staff salaries, industry association fees that are not specifically related to the Production), and is a

<sup>1</sup>For more information, please refer to the «Producer fee and Corporate Overhead» policy.



fixed amount that the CTF and TFC allow without supporting justification ("Fixed Corporate Overhead"). Amounts charged as Fixed Corporate Overhead must not, however, exceed the amounts specified in the Policies, Guidelines and/or Contractual Agreements.

The Production/Distribution Company must justify any administrative expenses(s) charged to other Budget items of the Production in addition to the Fixed Corporate Overhead and such additional administrative expense(s) are subject to the CTF and TFC's prior written approval. Administrative expenses specific to the Production are typically allowed outside of the Fixed Corporate Overhead (e.g. rental of temporary production office space, salaries paid to Production/Distribution Company staff for time spent working on the Production, CAVCO user fees providing tax credits are included in the Production financing).

The CTF and TFC reserve the right to audit the Fixed Corporate Overhead expenses at its sole option.

#### **4.2.3 Other locked items**

The CTF and/or TFC may identify within the applicable Contractual Agreement or associated deal memo other locked Budget items (e.g. script rights, related party transactions, unit publicity etc.) for which the final costs in these categories may not exceed the allowances originally allocated within the Budget unless otherwise pre approved by the CTF and/or TFC. Production/Distribution Companies and Independent Public Accountants must take particular care to ensure that these limitations are respected and properly reported. Example note disclosure for the FCACS is set out in [Appendix 5](#).

#### **4.3 Discounts and credit notes**

During the course of a Production, the Production/Distribution Company or a related entity may receive discounts or rebates from suppliers (e.g. volume rebate, early payment rebate), which are not reflected in the Budget. Credit notes may also be issued pursuant to adjustments related to services rendered, goods purchased or billing errors. Such discounts, rebates and credits whether from third party suppliers or related entities must be applied against the applicable Production expense.

#### **4.4 Completion guarantee rebates**

The Production Company must indicate by way of notes to the FCACS certified by the Independent Public Accountant the total amount received as a rebate or no-claims bonus from a completion guarantor and the note should indicate the manner in which the amount was calculated and accounted for.

Interim production financing may be obtained from a variety of lending sources, either related or unrelated to the Production Company. Accounting methods will vary according to the source. Estimates of these costs must be included as a separate line item in code 72 of section D of the Budget. Information on the sources of interim financing should be included in Note 10 of the FCACS.

#### **4.5.1 Interim Financing obtained from third parties not related to the Production**

Normally, a loan agreement is established between the Production Company and the Interim Financing source (the “lender”) specifying the fees, costs, time frame and the applicable interest rate. The cost of Interim Financing reported in the FCACS must correspond to the amount of fees, costs and interest billed by the lender plus an estimate of the future cost of interim financing based on the lender’s borrowing rate, through to the date of receipt of final financing. (e.g.: tax credits, licences, etc.)

#### **4.5.2 Financing obtained from an entity related to the Production Company**

The Production Company may elect to interim-finance the Production from its own cash resources, other liquid assets, or its line of credit, or those of a related party.

- In such cases, the financing cost charged to the Production must be equivalent to the cost of borrowing of the Production Company or its related party providing such financing. **For greater certainty, the cost of borrowing may not exceed that of its related party’s external borrowing rate.**
- The cost of interim financing must be calculated as interest accruing on the monthly cash outflow for Production costs, less monthly financing in cash received from other sources up to the date the final financing is received. The Production Company may be asked to provide a copy of its cash flow statement including interim amounts received and disbursements made against the loan balance to support such charges.
- The period for which interest is charged must be reasonable, and should correspond to the period over which the Production Company or its related party has provided the interim financing for the Production plus an estimate of the future cost of interim financing up to the date the final financing is received.
- In order to recognise an opportunity cost to the related parties providing the interim financing through their equity (savings), the CTF and TFC will allow such related parties to charge a rate equal to prime + 1%.

Please refer to the example calculation attached as [Appendix 7](#).

## **4.6 Assets acquired in the course of the Production (for production activities only)**

The CTF and TFC recognize 2 categories of assets for production activities:

- Assets acquired by the Parent company or a related Service Company and rented to the Production Company (e.g. off-camera transport vehicles, camera, lighting, sound, editing and post production equipment, etc);
- Assets acquired by the Production Company as on-camera elements (e.g. sets, set decorations, props, picture vehicles, wardrobe items, etc.)

### **4.6.1 Assets acquired by the Parent Company or related Service Company**

These assets are recorded as an asset on the balance sheet of the related company and can be rented for production needs to the Production Company. The accounting and reporting of such asset rental must be in accordance with section 4.10.3 of the present document.

### **4.6.2 Assets acquired by the Production Company**

This section is for assets acquired for production needs only and are an integral part of the on-camera requirements of the Production.

- The cost of assets must correspond to their actual purchase or construction cost and supported by contracts, invoices, payroll records, etc.
- The asset must be directly related to the Production.
- When the same assets are used in several productions (notably in renewed series in the case of a television activity), the CTF and TFC will permit the total cost to be charged in the first series of episodes. In this case, if there is a subsequent series of episodes utilizing the assets, the cost of such assets must be zero (except for reasonable costs for storage, repair and maintenance, insurance and other operating costs directly related to the asset).

However, for absolute clarity, the CTF and TFC will permit the cost of an asset to be charged only once and must not exceed the actual purchase cost.

- If the acquired assets are disposed of at the end of the production, proceeds from the sale must be applied as a credit to the production budget line item to which the cost was initially recorded.
- When the acquired assets are not disposed of at the end of the production and have a residual value other than zero, this value must be credited to the production budget line item to which it was initially recorded.
- When submitting the FCACS, the Production Company must provide the following information certified by the Independent Public Accountant with respect to assets acquired in the course of the Production:

➤ If no assets were acquired, a **note** to this effect must be included in the FCACS.

- If any assets have been acquired at a value equal to or exceeding the greater of \$5,000 or 0.5% of the total final Production cost as reported in the FCACS, a description of the asset and its acquisition cost must appear in a note to the FCACS. Example of a note disclosure is set out in [Appendix 5](#), item 3.
  - The value of assets presented by way of note should include details of any direct and indirect labour costs capitalized to fixed assets where labour is provided by persons employed by the Production Company and the appropriate portion of indirect costs.
  - If the Production company disposes of the acquired assets at a cost equal to or exceeding the greater of \$5,000 or 0.5% of the total final Production cost, a description of each asset, its acquisition cost, the amount of the proceeds of disposition and the accounting for such disposition(s) must appear in the note to the FCACS.
- The CTF and TFC reserve the right to refuse certain costs and/or proceeds if in their sole opinion such costs and/or proceeds are deemed unreasonable.

## **4.7 Non-Canadian costs**

All non-Canadian costs (costs paid in foreign currency, either to Canadian or non-Canadian Companies, that represent a risk of gain or loss on exchange) incurred by either Canadian or non-Canadian Production/Distribution Companies must be identified separately from Canadian costs for all Productions, whether treaty certified co-Productions or otherwise.

If any non-Canadian performers appear in the Production, please complete section 8 of [Appendix 5](#) and provide the information requested for (i) the non-Canadian performers and (ii) the two Canadian performers who have been awarded the CAVCO points for first and second highest paid performers.

## **4.8 Foreign Currency Transactions**

With respect to Production costs, gains or losses on foreign currency exchanges whether realized or not must be applied against the relevant Production cost line item. Accounting for such amounts must be specified in the notes to the FCACS as set out in [Appendix 5](#).

In the case of a treaty co-production, all gains or losses on foreign currency exchanges, whether realized or not, may be recorded in a separate line item in section D.

With respect to Production financing, gains or losses on foreign currency exchanges, whether realized or not, must be applied as described in the relevant Contractual Agreement and disclosed within the FCACS in the manner presented in [Appendix 5](#).

## **4.9 Production costs paid to broadcasters and distributors**

Any amounts paid to broadcasters licensing the Production and/or distributors acquiring distribution rights to the Production as Production costs (whether in the form of cash or services)

must be reported as an actual cost and specified in the notes to the FCACS as set out in [Appendix 5](#).

#### 4.10 Related-party transactions (RPT)

The value of any estimated RPT included within the Budget must be separately disclosed to the CTF and TFC at the time of application, followed by the actual cost of the RPT, which must be disclosed within the FCACS in the manner presented in [Appendix 5](#). Actual RPTs and related balances are to be determined in accordance with Canadian generally accepted accounting principles and also following established complementary rules adapted to the film, television and new media industries established by the CTF and TFC, which are described below in sections 4.10.1 to 4.10.3.

##### 4.10.1 Definitions

CICA Section 3840 *“Related Party Transactions”* includes the following pertinent definitions of related parties and related party transaction, control and significant influence:

- **“Related parties** exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. **Related parties also include management and immediate family members.”**
- **“A related party transaction** is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.”
- **“Control** of an enterprise is the continuing power to determine its strategic operating, investing and financing policies without the cooperation of others.”
- **“Significant influence** over an enterprise is the ability to affect the strategic operating, investing and financing policies of the enterprise.”

The foregoing definitions are not exhaustive and further details may be found in Section 3840 of the *CICA Handbook*. The Independent Public Accountant should be consulted in these matters.

## **Two categories of related party transactions are recognized by the CTF and TFC:**

Related party personnel  
Goods and services supplied by related parties

### **4.10.2 Related party personnel**

The cost of services (i.e. salaries or fees) rendered by individuals hired by a related entity and allocated in whole or in part to the Production/Distribution Company must correspond to the actual amount paid to the individual and be in accordance with the employment or engagement contract signed with the employer. Such amounts must be supported by corresponding disbursements. Salary expenses must also correspond to the period of time worked by the employees for the Production. Related costs and employee benefits may be included with these expenses.

The allocation of time devoted to the Production must be reasonable and appropriate and must be supported by documents such as T4, employment contracts, time sheets specifying the production title, etc.

In order for labour expenditures to be admissible they must meet the following 5 criteria<sup>2</sup>:

- Be reasonable in the circumstances;
- Be included in the cost of the Production;
- Be Incurred for the production stages of the Production, from the final script stage to the completion and delivery of the Production;
- Be directly attributable to the Production (there must be a clear link to specific work performed on the Production), and;
- Be paid in the fiscal year or no later than 120 days after the Production Company's year-end<sup>3</sup>.

The Producer/Distributor is responsible for providing sufficient and adequate documentation to support the above stated amounts.

### **4.10.3 Goods and services supplied by related parties**

Productions frequently use various goods, services and other assets owned by a related company, including but not limited to space in a building, camera and sound equipment, postproduction services and facilities, computers and related material, vehicles, office equipment and furniture, etc.

<sup>2</sup>Please note that such criteria are the same as those included in the CRA's *Claiming a Canadian Film or Video Production Tax Credit* Guide.

<sup>3</sup>The CTF and TFC will take into account in their analysis, the delayed payments due to the tax credits and other fund lenders in the Production.

The accounting of these transactions will conform to one of the following two methods:

- (i) When the goods and services provider is a related entity, such transactions may be accounted for at the exchange value, as defined in the CICA Handbook, section 3840. However, to be admissible, the expense must meet the 5 criteria stated in the previous section, i.e. 4.10.2, and if the goods or services are provided by the Parent company, the latter must correspond to the CRA's definition as stated in its policy on Administration Fees<sup>4</sup>. The CTF/TFC reserve the right to revise the admission criteria in cases of abuse of application or if certain amounts are unsubstantiated or deemed unreasonable.
- (ii) When the goods and services provider is the same legal entity as the Production Company, such transactions must be accounted for at the actual cost as defined hereunder.

Actual cost must be calculated based on the actual operating costs<sup>5</sup> incurred by the Production company including but not limited to, acquisition costs or depreciation, electricity, rent, insurance, maintenance costs and repairs, cost of financing<sup>6</sup> such goods, property taxes, required permits, etc. that have been incurred directly for the production. The CTF/TFC may use the annual financial statements of the Production Company to validate the actual operating costs.

When a related company charges a Production/Distribution company for goods or services supplied by a third party (e.g. utilities, etc.), the value of the goods or services must be equal to the cost paid by the related party to the third party. No profit margin can be charged on these goods or services. They are to be charged at a rate equal to actual cost .

**The Producer/Distributor is responsible for providing sufficient and adequate documentation to support the above stated amounts.**

<sup>4</sup> Canadian Film or Video Production Tax Credit (FTC) – Corporate Overhead

<sup>5</sup> Operating expenses as per financial statements must be calculated according to the amount of time used and/or space required for the Production. The producer must be able to justify the operating costs associated to the asset rented in the Production.

<sup>6</sup> Asset financing costs must be based on actual interest charges appearing on statements issued by the financing institution when an actual financing contract exists. When the Production/Distribution Company finances the acquisition of assets through its liquid assets or line of credit, the CTF and TFC allow estimated interest charges to be included. However, two criteria must be met:

- The rate used must not exceed the external lender's borrowing rate for the period during which the asset is used for the Production;
- The amortization period of the estimated loan must be reasonable and must not exceed the length of the useful life of the acquired asset or the usual depreciation rate employed by the lessor or owner of the assets.

#### **4.11 Versioning**

In accordance with the Guidelines, when versioning into English or French for Canadian broadcast, the entity providing such service must be a Canadian owned and controlled company. Exceptions may be made in the case of an official treaty co-production. Accordingly, the nationality of the versioning entity must be identified in section 13 of [Appendix 5](#).

### **5. INDEPENDENT PUBLIC ACCOUNTANT RESPONSIBILITIES**

The Independent Public Accountant engaged to conduct the certification of the final Production cost statement of a given Production must be independent of the Production/Distribution Company and the Producer(s), within the definition of independence as defined by the provincial institute with whom the Independent Public Accountant is a member.

When providing an audit engagement or review engagement, Independent Public Accountants must carry out their work in accordance with Canadian generally accepted standards for audit or review engagements, and be familiar with the industry and its practices.

In addition to certifying the FCACS or FCR of a given Production, the Independent Public Accountant must be familiar with these Reporting Requirements. If clarification is required, the Independent Public Accountant is encouraged to contact the CTF and/or TFC.



## **APPENDIX 1**

### **STANDARD AUDIT REPORT**

## AUDIT ENGAGEMENT REPORT

To the shareholders of the production (or distribution) company

We have audited the final certified activity cost statement, as provided for in the contractual agreement with The Canadian Television Fund (CTF) and Telefilm Canada (TFC), for the production of the feature film (or television program, or series, or new media project) entitled \_\_\_\_\_ for the period from \_\_\_\_\_ to \_\_\_\_\_. The final certified activity cost statement has been prepared in compliance with the CTF and TFC accounting and reporting requirements. The final certified activity cost statement and its compliance with the requirements of the contractual agreements are the responsibility of the Production Company. Our responsibility is to express an opinion, based on our audit, on the compliance with the CTF and TFC's Accounting and Reporting Requirements as set out in the contractual agreement and defined in Note 2.

We conducted our audit in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance that the final certified activity cost statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the final certified activity cost statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall final certified activity cost statement presentation.

In our opinion, the final certified activity cost statement presents fairly, in all material respects, the accumulated statement of costs for the production of the feature film (or television program, or series, or new media project) entitled \_\_\_\_\_ for the period from \_\_\_\_\_ to \_\_\_\_\_, consistent with the accounting standards defined in Note 2 and in compliance with the CTF and TFC's Accounting and Reporting Requirements.

The final certified activity cost statement, which has not been and was not intended to be prepared in accordance with Canadian generally accepted accounting principles, is provided solely for information purposes to be used by the Directors of \_\_\_\_\_ and the CTF/TFC in order to comply with the contractual agreement with the CTF/TFC. The final certified activity cost statement is not intended to be and should not be used by anyone other than the specified users or for any other purpose.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_  
Chartered Accountants

City: \_\_\_\_\_

## **APPENDIX 2**

### **STANDARD REPORT ON REVIEW PROCEDURES**

## REVIEW ENGAGEMENT REPORT

### To the shareholders of the production (or distribution) company

We have reviewed the final certified activity cost statement applicable to the film (television program/series or new media product) entitled \_\_\_\_\_ (the "Production") for the period from \_\_\_\_\_ to \_\_\_\_\_. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on this final certified activity cost statement.

Based on our review, nothing has come to our attention that causes us to believe that this final certified activity cost statement is not, in all material respects, the cumulative costs of the Production from \_\_\_\_\_ to \_\_\_\_\_, consistent with the accounting standards defined in Note 2 and in compliance with the Canadian Television Fund and Telefilm Canada Accounting and Reporting Requirements.

Date:

Signature:  
(company)

City:

## **APPENDIX 3**

### **PRODUCTION AND DISTRIBUTION AFFIDAVIT**

## AFFIDAVIT

I the undersigned, being the Authorized representative of the production/distribution company \_\_\_\_\_, having completed and delivered the film (or television program/series or new media product) entitled \_\_\_\_\_ (the Production), hereby certify that the final production (or distribution) costs, as reported in this Final Cost Report for the period from \_\_\_\_\_ to \_\_\_\_\_, and submitted to the Canadian Television Fund and Telefilm Canada, are a true and fair representation of all costs of the Production.

Signature

Title

Date

Declared before me

---

(Notary Public or Commissioner for taking Oaths)

In

(city, town)

in

(province)

this

(day of the month)

day of (month, year)

## **APPENDIX 4**

### **DEVELOPMENT AFFIDAVIT**

## Development Affidavit

I the undersigned, being the Authorized representative of the production company\_\_\_\_\_, having taken to term the development of the film (or television program/series or new media product) entitled\_\_\_\_\_(the «Project»), hereby certify that the final development costs, as reported in this Final Cost Report for the period from \_\_\_\_\_to \_\_\_\_\_, and submitted to the Canadian Television Fund and Telefilm Canada, are a true and fair representation of all costs of the Project.

Signature

Title

Date

Declared before me

---

(Notary Public or Commissioner for taking Oaths)

In

(city, town)

in

(province)

this

(day of the month)

day of (month, year)



## **APPENDIX 5**

### **EXAMPLE NOTES TO THE FINAL CERTIFIED ACTIVITY COST STATEMENT**

## **Notes to the Final Certified Activity Cost Statement (FCACS)**

### **1. Content**

The Final Certified Activity Cost Statement applicable to the \_\_\_\_\_ (*identify as one of the following formats: feature film or television program/series or new media product*) entitled (the "Production") for the period from \_\_\_\_\_ to \_\_\_\_\_ includes all costs incurred by \_\_\_\_\_ (the production/distribution company) with respect to this Production, including costs incurred but unpaid at the time this FCACS was prepared.

The production/distribution company, \_\_\_\_\_, is responsible for the production (or distribution) of the above referenced Production. The individual producer(s) or distributor (s) of the Production is (are)

..

All amounts reported in this FCACS are stated in Canadian dollars, unless otherwise indicated.

### **2. Summary of significant accounting policies**

In the following cases, information must be provided on the accounting policies applied, along with a brief description of the application of any specific CTF and TFC rule on accounting and reporting if:

- the accounting policy was chosen from among several acceptable accounting policies;
- accounting principles and methods specific to the film, television and new media industry have been applied;
- Canadian generally accepted accounting principles (GAAP) were applied in a new or unusual way;
- specific accounting methods are not consistent with GAAP.

#### *Example disclosure of accounting policies*

The costs incurred relative to the Production have been accounted for according to Canadian generally accepted accounting principles and the Accounting and Reporting Requirements established by the CTF and TFC. The specific rules that differ from Canadian generally accepted accounting principles include the following:

- a) General: The costs compiled in this report do not take into account any reimbursable tax credit applicable to certified productions.

- b) Production activity costs: The production activity costs include the direct production expenses as well as the Producer Fees and Fixed Corporate Overhead, the latter two of which are equal to \_\_\_% of the aggregate of the “B” + “C” sections of the approved production budget for this Production.
- c) Completion Guarantee: The completion guarantee rebate amount has been applied so as to reduce the cost of the completion guarantee **OR** the completion guarantee rebate amount has not been calculated in this cost report.
- d) Interim Financing costs:
- i) from third party lenders are charged to the Production at rates set by that third party;
  - ii) from related-parties correspond to the difference between the monthly cash outflow and monthly cash investments multiplied by the related parties’ external lender’s borrowing rate;
  - iii) includes estimated borrowing costs up to the date of receipt of the final financing.
- e) Assets: All assets acquired for the Production are reported as Production costs. All proceeds resulting from the disposition of such assets during the period covered by the FCR have been applied so as to reduce the Production cost items against which they were originally charged. Assets transferred to another Production are considered to be disposed of by the Production for the fair value of that asset at the time of disposal.

Related-party transactions are measured either at the exchange amount or actual cost. The exchange amount is determined in reference to the lowest rates charged for the same or similar goods or services rendered within the period of Production.

Other significant accounting policies.

### 3. Assets acquired and disposed of during the Production

- No assets were acquired during the Production.
- The total value of all assets acquired during the Production is \$ \_\_\_\_ .
- The list of all assets acquired or disposed of whereby the original unit cost was the greater of \$5,000 or 0.5% of total Production costs appears in the table below;

**Description**

**Acquisition cost**  
**Disposition proceeds**  
**(actual or planned)**  
(if applicable)

#### 4. Related-party transactions

The Production costs include the following related party transactions and amounts:

Budget line item & Code	Description	Related party name and description of relationship	Measurement (actual cost or exchange amount)	Amount

The transactions related to the services rendered by employees of the related company were measured at actual cost.  
The measurement basis used for each of the other related-party transactions was the exchange amount.

#### 5. Unpaid Costs

The Production costs include unpaid costs. As at \_\_\_\_\_ (date of final cost report), the Final Certified Activity Cost Statement includes the following unpaid balances:

Accounts payable	\$
Accrued liabilities	\$
Deferred costs	\$
<b>Total</b>	<b>\$</b>

**The components of accounts payable and accrued liabilities are as follows:**

**Deferred costs:**

<b>Description</b>	<b><u>Budget code</u></b>	<b>Amount</b>
--------------------	---------------------------	---------------

## 6. Locked Budget Items

The Budget dated \_\_\_\_\_ and approved by the CTF and TFC locks certain specific costs, as included in the table below:

Description	Budget code	Allowable maximum or minimum amount	Total charged in final cost report

## 7. Non-Canadian costs

The Production costs include the following non-Canadian costs:

Budget line item Description & code	Amount
-------------------------------------	--------

## 8. Point performers and non-Canadian performers

As certain non-Canadian performers were engaged for the Production, in accordance with section 4.7 of these Reporting Requirements, the following information is with respect to (i) the non-Canadian performers and (ii) the two Canadian performers who fulfilled the highest and second highest paid CAVCO point categories:

Role	Name of Performer	Nationality	Fees paid	Travel and Living (paid or provided)	Other costs

## 9. Foreign currency exchange (Production cost transactions)

The gains (losses) from foreign exchange transactions amounted to \$ \_\_\_\_\_, and were applied against (included in) the cost of the following items, in the following amounts.

Budget line item & code	Amount
-------------------------	--------

## 10. Sources and structure of financing

The following table sets out the final and interim sources of financing for the Production.

Name of funding source (including interim financing)	Total amount received as at date of FCACS	Total amount receivable from/payable to interim lender(s) as at date of FCACS	Total financing
Name of third party lender			
Name of related party lender			
<b>Total Financing</b>			
<b>Total Costs</b>			

Foreign currency exchange generated pursuant to the sources of financing resulted in a gain or (loss) of \$ \_\_\_\_\_.

## 11. Completion guarantee rebate

The Production Company received a rebate (or no claims bonus) of \$ \_\_\_\_\_ from the completion guarantor. This rebate was accounted for as:

Budget line item & code	Amount

## 12. Amounts paid to broadcasters and/or distributors

Budget line item & code	Payee	Description	Amount

## 13. Versioning

The entity which provided the (English or French) (subtitled or dubbed) version of the Production was a (*enter country*) corporation.

## **APPENDIX 6**

### **GLOSSARY OF TERMS**

## Glossary of Terms <sup>7</sup>

**Accounting and Reporting Requirements (Reporting Requirements)** – the document dated as of January 1, 2006 to which this Appendix is attached.

**Budget** – the final detailed estimate of the total costs of the Production prepared by industry professional estimators hired by the Production or Distribution Company and approved by the CTF and TFC, set out in accordance with the standard formats as approved by the CTF and TFC.

**Contractual Agreements** – general term used to refer to the various types of agreements between the CTF, TFC and one or more Production and/or Distribution company.

**Distribution Company** – the corporation, which has entered into the Contractual Agreements and under which it is responsible for distributing the production.

**Final Certified Activity Cost Statement (FCACS)** – the final production or distribution cost statement which has been audited or reviewed by an Independent Public Accountant and certified as being the true and accurate final cost of the Production up to the date of such statement.

**Final Cost Report (FCR)** – the final production or distribution cost report prepared and submitted by the Production or Distribution Company setting out all costs paid, accrued and estimated to complete (if applicable) as compared to the Budget, after completion of the Production. The FCR must be accompanied by relevant notes in explanation of substantive variances between Budget and final cost for each line category.

**Final Payment Application** – refers to the Production or Distribution Company's application for final payment in accordance with the financing agreement and guidelines applicable to the specific production or activity.

**GAAP** – Canadian generally accepted accounting principles.

**Guidelines** – Document providing detailed rules and instructions concerning the management of the CTF and/or TFC programs.

<sup>7</sup> This glossary of terms is intended strictly for the interpretation of the present document and should not be used for any other interpretation of CTF or TFC's Reporting Requirements.



**Independent Public Accountant** – An independent public accountant, engaged by the Production/Distribution Company to undertake the certification of the FCACS. Must be a member in good standing with a professional organisation authorized for this type of work and with its provincial institute. The Independent Public Accountant must be independent of the Production/Distribution Company and the Producer(s)/Distributor(s), within the definition of independence as defined by the provincial institute with whom the Independent Public Accountant is a member.

**Interim Financing** – the temporary financing provided in the form of a loan paid in advance, and secured by funds to be received from the final underlying Production financing sources.

**Management** – any person(s) having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.

**Parent Company** – (ref. CICA Handbook) a corporation who has control over another corporation (subsidiary) that has the right and ability to obtain future economic benefits from the resources of the enterprise and is exposed to the related risks. In this context, control of an enterprise means the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.

**Phase II Application** – refers to the process between the CTF/LFP's receipt of the Production Company's application for final payment pursuant to the Financing Agreement through to the payment by the CTF/LFP to the Production Company of the final payment.

**Policy** – A policy is defined as a course of action in line with stated objectives officially adopted by the CTF and TFC's Board of Directors and pursued by the Corporations. A policy document states a policy and provides guidelines for its application.

Note: The terms "policy document" and "guidelines" are often used synonymously.

**Production** – the television program or series, feature film or new media product as defined in the Contractual Agreements, the cost of which is reported to the CTF and/or TFC pursuant to these Reporting Requirements.

- For TFC purposes, "Production" refers to television program or series, feature film and new media development, production and distribution activities. "Production" also applies to any other financed activity for which a final cost report is required.
- For CTF purposes, "Production" refers to television program or series and feature film production activities only.

**Production Company** – the corporation, which has entered into a Contractual Agreement under which it is responsible for producing, and completing the production.

**Residual value** – the estimated net realizable value of an item of property, plant and equipment at the end of its useful life to an enterprise.

## **APPENDIX 7**

### **CALCULATION OF INTERIM FINANCING COSTS CHARGED BY A RELATED PARTY**

## Calculation of Interim Financing Costs charged by a Related Party

<b>Actual Monthly Cash Flow</b>	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	... <sup>8</sup>	Total <sup>9</sup>
Balance Carried Forward								
Monthly Receipts (A)								
Monthly Disbursements (B)								
Total monthly interim financing requirement (A) – (B)								
Related party monthly cost of borrowing (%) (C)								
Monthly interim financing (C) X (A - B)								
Plus estimate <sup>10</sup> of future cost of interim financing (D)								
Total interim financing cost								

<sup>8</sup> The period should correspond to the period over which the related party has provided the interim financing for the production.

<sup>9</sup> Should be equal to Final Production Costs as per the FCACS.

<sup>10</sup> Not to exceed the date of receipt of final financing.