Canadian Television Fund
Fonds canadien de télévision

TELEFILM CANADA

Changes to the Accounting and Reporting Requirements

January 1, 2006

Changes to the Accounting and Reporting Requirements

The Canadian Television Fund (CTF) and Telefilm Canada (TFC) wish to inform you of the changes to their new **Accounting and Reporting Requirements**, applicable to all CTF and TFC funds and programs for which a final cost report is required. This document is now available online and can be found on the Canadian Television Fund's web site at www.canadiantelevisionfund.ca.

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

This advisory is intended to briefly outline the two major changes from the previous requirements, section 4.6 Assets acquired in the course of the Production and section 10 Related Party Transactions. In no case it eliminates the need for applicants to familiarize themselves with the official document.

4.6. Assets acquired in the course of the Production

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 is an integral part of the on-camera requirements of the Production.

- 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.

- 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 is 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 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.

  - 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.

4.10. Related-party transactions (RPT)

4.10.2. Related party personnel

In order for labour expenditures to be admissible they must meet the following 5 criteria:

- 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.

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

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. 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 incurred by the Production company including but not limited to, acquisition costs or depreciation, electricity, rent, insurance, maintenance costs and repairs, cost of financing 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.

For more information, visit the Canadian Television Fund web site at www.canadiantelevisionfund.ca to obtain a copy of the new Accounting and Reporting Requirements, or contact Angélique Malo, Manager Collection and Compliance, Telefilm Canada, at (514) 283-0838 ext.# 2038