

**ACCOUNTING AND REPORTING  
REQUIREMENTS**

MARCH 5, 2024



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## 1. INTRODUCTION

This document presents the guidelines established by TELEFILM CANADA (Telefilm) with respect to the accounting and reporting of Production costs (“Accounting and Reporting Requirements”).

These revised Accounting and Reporting Requirements (“ARRs”) amend and replace the Accounting and Reporting Requirements published on September 19, 2016.

These ARRAs are intended for all Applicants receiving funding from Telefilm, in case of co-productions, the ARRAs applies to the Canadian share of the budget. They aim to convey the specific requirements and rules of Telefilm concerning the accounting and reporting of Production costs, with particular regard to the preparation of final cost reports (“FCR”)<sup>1</sup> and final certified activity cost statements (“FCACS”)<sup>2</sup>.

These ARRAs apply to all Productions for which financing agreements were entered into by Telefilm on or after March 5, 2024.

**For the purpose of these ARRAs, “Production” refers to a feature film development, production and distribution project.**

### Information on the Organization

Telefilm Canada is a Crown corporation, reporting to Parliament through the Department of Canadian Heritage. It is governed by the *Telefilm Canada Act*.

In order to ensure that the Applicant uses contributions received in compliance with the objectives of Telefilm, the Corporation requires that Applicants provide certain financial reports including statements of Production costs. Telefilm is entitled to examine the books of account and related records of these Applicants to ensure that they are in compliance with these ARRAs as set out in the agreements between Telefilm and the Applicant(s) (the “Contractual Agreements”).

These ARRAs were developed to establish a standard for activities in the film industry that seek funding through Telefilm.

## 2. PRODUCTION / DISTRIBUTION COMPANY (“APPLICANT”)

Telefilm’s ARRAs with respect to an Applicant include the following requirements:

- A. The maintenance of proper books of account and related records for the Production for which funding has been provided including:
  - Separate books of account and related records for each Production.

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<sup>1</sup> Final Cost Report (FCR): the final production or distribution cost report prepared and submitted by the Applicant 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 the Budget and the final cost for each line category.

<sup>2</sup> Final Certified Activity Cost Statement (FCACS): the final production or distribution cost statement which has been audited or reviewed by an Independent Auditor and certified as being the true and accurate final cost of the Production up to the date of such statement.

- The maintenance of a bank account into which all Production financing must be deposited, and from which all Production costs should be paid.
- B. Subject to section 2.1, a FCR and FCACS for each Production financed by Telefilm must be submitted with the application for the final drawdown payment, or the delivery of the final itemized documentation requirements (as applicable) to be filed by the Applicant 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 CPA Canada Handbook and these ARR's.
- C. The Applicant must ensure that all its accounting personnel, permanent as well as contractual, fully comprehend GAAP and these ARR's.
- D. The Applicant must also ensure that its management and senior finance personnel have:
- Familiarized themselves with Telefilm's required documentation dealing with the accounting and reporting of financial information. Such documentation, among others, includes:
    - i. Correspondence exchanged between Telefilm and the Applicant or its representatives (legal advisors, accountants or independent auditors);
    - ii. The Budget;
    - iii. These ARR's;
    - iv. The Contractual Agreements;
    - v. Telefilm Application Form for the Production;
    - vi. The applicable Telefilm Guidelines and Policies;
    - vii. Other agreements with third parties.
  - Taken all necessary steps, when in doubt, to obtain clarification from Telefilm as to the interpretation of these ARR's and any other Telefilm document.

## 2.1 Certification of Final Activity Cost Statements by Independent Auditors

For Productions with a budget in excess of \$500,000, Telefilm requires a FCACS accompanied by an Independent Auditor's report. For Productions with a budget in excess of \$250,000 but less than or equal to \$500,000, Telefilm requires a FCACS accompanied by an Independent Public Accountant's review engagement report. For Productions with a budget of less than or equal to \$250,000, the Applicant must submit an uncertified FCR, in which the latter declares that the final costs give a true and fair representation of all costs for the project (as set out in [Appendix 2](#)). However, Telefilm reserves the right to request an audit or review engagement be performed, regardless of the budget level.

## 2.2 Documents related to the Production

The Applicant is required to retain at its place of business or in an archival facility, books of account and documents for a period of five years from the year in which the Production was completed (as per the independent auditor's report, the review engagement report or the final costs declaration). Among others, these documents include the following (as applicable):

- All agreements entered into with financiers of the Production;
- A list of all affiliated, associated or related companies or entities
- Correspondence exchanged between financiers and the Applicant or its representatives;

- All 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;
- Proof of payment (cleared and cancelled cheques and/or disbursement vouchers and bank debit notes);
- Bank deposit slips;
- Purchase invoices and/or supplier statements and credit notes;
- Purchase orders or similar authorization for expenditures, signed by authorized personnel of the Applicant;
- Expense accounts and petty cash reports with corresponding receipts;
- Duly executed employee contracts, timesheets, employee T4 slips, income tax return ;
- Timesheets for related party labour costs to the project;
- Support for measurement of related party transactions for goods and services;
- Schedule of total allocations of shared costs; and
- Any other support for note disclosure.

The Applicant and the individual producer(s) must take all necessary precautions to ensure that all financial records of the Applicant 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. BUDGET

All financing applications submitted to Telefilm must be accompanied by a detailed estimate of the total costs (the "Budget"<sup>3</sup>). The following should be considered when preparing the Budget and submitting it to Telefilm:

- The participation of Telefilm is based in part on its assessment of the costs provided for in the Budget;
- Any costs that Telefilm deems excessive, inflated or unreasonable may cause Telefilm to adjust the amount of its participation;
- The Budget is evaluated by Telefilm;
- Evaluation of the Budget signifies Telefilm's **provisional** acceptance of the estimated Production expenses provided therein. Approval of the actual expenses is only given once the following steps have been performed by Telefilm:
  - Analysis of the FCACS
  - Analysis of the documentation submitted for the final drawdown, or in connection with the final itemized documentation requirements (as applicable)
  - Any subsequent audit or examination performed by Telefilm if required, provided that the documents noted above fulfill all contractual requirements and are in accordance with these ARRs;

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<sup>3</sup> Budget: as defined in Telefilm's agreements

- Evaluation and/or approval of the Budget by Telefilm 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 ARR's were developed to take into account the requirements and responsibilities incumbent on Telefilm and the Applicant. In some cases, they supplement GAAP, in others, they constitute exceptions to these principles. If clarification is required, it is encouraged to contact the department of Compliance and Collection at Telefilm.

### 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 and proof of payment, to the extent possible, providing a detailed description of the expenses charged, the date paid, the title of the Production and the name of the Applicant.

Any expense for which there is no adequate supporting document (invoice and proof of payment), will be considered inadmissible.

To the extent possible, all supporting documentation must correspond to the original document provided by sources external to the Applicant 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 final drawdown payment, or the delivery of the final itemized documentation requirements (as applicable) (the Unpaid Costs).

The Applicant must indicate, by way of notes to the FCACS, 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. Example note disclosure for the FCACS is set out in [Appendix 3](#), note 5.

As per these ARR's, a **payable** is defined as a service rendered for which the invoice is received, but not yet paid at the time the final cost report is issued by the Applicant.

An **accrual** is defined as a service rendered or not for which, the invoice is not received, however the amount can be reasonably estimated at the time the final cost report is issued by the Applicant.

The Applicant and Independent Auditor must take particular care to ensure that these items are properly reported and supported with adequate documents (invoices, subsequent proof of payments). See the disclosure note example set out in [Appendix 3](#), note 5.

#### 4.1.3 Deferrals

Deferred amounts are contingent liabilities dependent on a future event. An admissible deferral is a production cost, whether labour or non-labour, based upon a contractual agreement that represents a

contingent liability for a production company, i.e. the eventual payment is contingent upon the occurrence of a possible event, such as revenue generation from a production's exploitation.<sup>4</sup>

Deferrals must be supported by pre-approved contractual agreements. In cases where deferrals include related parties, the Independent Auditor must ensure that these transactions were properly valued (please refer to Section 4.9 Related Party Transactions).

The FCACS must include a note to that effect. See the disclosure note example set out in [Appendix 3](#), note 5.

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

### **4.2.1 Producer fees and expenses**

#### **4.2.1.1 Producer fees**

Producer fees (summary code 4 of section A of the Budget) include remuneration payable (but exclude travel & living -- see 4.2.1.2 below) from pre-production, including development, through delivery and final cost reporting. These fees constitute a contractual fixed amount that Telefilm allows without additional justification. Amounts charged as producer fees must not, however, exceed the amounts specified in the applicable Policies, Guidelines and/or Contractual Agreements. Telefilm reserves the right to audit the Producer fees at its sole discretion.

Refer to the section on related-party transactions (RPT) for proper disclosure and valuation on any producer fee(s) paid directly or indirectly to a producer and any party that is not dealing at arm's length with the Applicant.

#### **4.2.1.2 Producer expenses**

A producer may incur expenses other than producer fees which may be charged to the Production. These expenses are usually for travel, entertainment or accommodation. Such costs are eligible only if substantiated by supporting documentation, were directly incurred for the Production and are not subject to special conditions stipulated in the applicable Policies, Guidelines and/or Contractual Agreements. Under no circumstances will expenses incurred for or in connection with attendance or other participation at Festivals, Markets, or awards be considered eligible.

#### **4.2.1.3 Consulting fees**

All consulting fees paid to professionals must be detailed by way of a note to the FCACS. See the disclosure note example set out in [Appendix 3](#), note 13.

Telefilm reserves the right to consider all or a portion of these fees as being part of producer fees.

### **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, etc.) that are not specifically related to the Production, and is a contractual fixed amount that Telefilm accepts without additional justification ("Fixed Corporate Overhead"). Amounts charged as Fixed Corporate

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<sup>4</sup> Please note that such criteria are the same as those included in the *Canadian Film or Video Production Tax Credit (CPTC)* Program Guidelines.

Overhead must not, however, exceed the amounts specified in the Policies, Guidelines and/or Contractual Agreements.

The Applicant must justify any administrative expense(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 Telefilm'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 Applicant staff for time spent working on the Production, CAVCO user fees providing tax credits are included in the Production financing). Telefilm reserves the right to audit the Fixed Corporate Overhead expenses at its sole discretion.

Refer to the section on Related-party transactions (RPT) for proper disclosure and valuation on any administrative expense(s) paid directly or indirectly to any party that is not dealing at arm's length with the Applicant.

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

Telefilm 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 Telefilm.

The Applicant and Independent Auditor must take particular care to ensure that these limitations are respected and properly reported. See the disclosure note example set out in [Appendix 3](#), note 6.

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

During the course of a Production, the Applicant 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 to or from related entities must be applied against the applicable Production expense.

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

The Applicant must indicate in a note to the FCACS, the total amount received as a rebate or no-claims bonus from a completion guarantor. The note should indicate the manner in which the amount was calculated and accounted for. See the disclosure note example set out in [Appendix 3](#), note 10.

#### **4.5 Cost of interim financing<sup>5</sup>**

Interim production financing may be obtained from a variety of lending sources, either related or unrelated to the Applicant. Accounting methods will vary according to the source. Details 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 9 of the FCACS and any unpaid amount(s) should be disclosed as set out in the disclosure note example in [Appendix 3](#), note 5.

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<sup>5</sup> 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.



The Applicant and Independent Auditor must take particular care to ensure that an accrual with respect to interim financing is reasonably estimated.

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

Normally, a loan agreement is established between the Applicant 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, etc.)

#### **4.5.2 Financing obtained from an entity related to the Applicant**

The Applicant 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 Applicant 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 period for which interest is charged must be reasonable, and should correspond to the period over which the Applicant 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), Telefilm will allow such related parties to charge a rate equal to prime + 1%. Telefilm reserves the right to refuse any rate deemed abusive or excessive.

### **4.6 Assets acquired in the course of the Production**

Telefilm recognises 2 categories of assets for production activities:

- Assets acquired by the parent company or a related service company and rented to the Applicant (e.g. off-camera transport vehicles, camera, lighting, sound, editing and post production equipment, etc.);
- Assets acquired by the Applicant 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 Applicant. The accounting and reporting of such asset rental must be in accordance with section 4.9.3 of the present document.

#### **4.6.2 Assets acquired by the Applicant**

This section is for assets acquired for production needs only and assets that 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 be supported by contracts, invoices, payroll records, etc.
- The asset must be directly related to the Production.

- 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<sup>6</sup> other than zero, this value must be credited to the production budget line item to which it was initially recorded.
- The Applicant must provide the following information with respect to assets acquired in the course of the Production in a note to the FCACS (see the disclosure note example set out in [Appendix 3](#), note 3):
  - 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.
  - 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 Applicant and the appropriate portion of indirect costs.
  - If the Applicant 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.
  - If no assets were acquired, a **note** to this effect must be included in the FCACS.
- Telefilm reserves the right to refuse certain costs and/or proceeds if in its sole opinion such costs and/or proceeds are deemed unreasonable.

#### 4.7 Non-Canadian costs

All non-Canadian costs incurred by either the Canadian Applicant or its foreign coproducer must be identified separately from Canadian costs for all Productions, whether audiovisual treaty coproductions or otherwise.

- For production projects, the term “non-Canadian costs” covers admissible expenses for services **provided by non-Canadians (except if services are provided to a Canadian individual**, in which case they are treated as Canadian costs).
- For distribution projects, this term covers admissible expenses for services **provided outside of Canada**.

They must be specified in a note to the FCACS. See the disclosure note example set out in [Appendix 3](#), note 7. If there are no non-Canadian costs, the FCACS must include a note to that effect.

#### 4.8 Foreign currency transactions

With respect to Production costs, gains or losses on foreign currency exchanges (realized or not) must be applied against the relevant Production budget line item. Accounting for such amounts must be specified in the notes to the FCACS as in the disclosure note example set out in [Appendix 3](#), note 8.

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<sup>6</sup> 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.

In the case of an audiovisual treaty coproduction, all gains or losses on foreign currency exchanges may be recorded in a separate line item in section D.

With respect to Production financing, gains or losses on foreign currency exchanges must be applied as described in the relevant Contractual Agreement and disclosed in the FCACS in the note on sources of financing. See the example set out in [Appendix 3](#), note 9.

## 4.9 Related-party transactions (RPT)

The value of any estimated RPT included within the Budget must be separately disclosed to Telefilm at the time of application, followed by the valuation for the RPT, which must be disclosed within the FCACS, see the disclosure note example set out in [Appendix 3](#), note 4. Related parties are defined as parties that are related within the meaning of the CPA Canada Handbook as that definition may be adapted by Telefilm to the context of the film and television industry, (see sections 4.9.1 to 4.9.3).

### 4.9.1 Definitions

The CPA Canada Handbook includes the following pertinent definitions:

- “**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 or close members of the family.**”
- Management is defined as any person(s) having authority and responsibility for planning, directing and controlling the activities of the Applicant or Production. In the context of the film and television industry, Telefilm considers a related party not only to be a party related to the Applicant, but also a party related to the individual producer(s) or production.
- “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 co-operation of others.”
- “**Significant influence** over an enterprise is the ability to affect the strategic operating, investing and financing policies of the enterprise.”
- “**Joint control** of an economic activity is the contractually agreed sharing of the continuing power to determine its strategic, operating, investing and financing policies.”
- “**Carrying amount** is the amount of an item transferred, or cost of services provided, as recorded in the accounts of the transferor, after adjustment, if any, for amortization or impairment in value”.
- “**Fair value** is the amount of the consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act.”
- “**Exchange amount** is the amount of consideration paid or received as established and agreed to by related parties.”

The foregoing definitions are not exhaustive and further details may be found in the applicable related party transactions section(s) in the CPA Canada Handbook. If clarification is required, the Independent Auditor is encouraged to contact the department of Compliance and Collection at Telefilm.

**Two categories of related party transactions are recognised by Telefilm:**

- Related party personnel
- Goods and services supplied by related parties

#### **4.9.2 Related party personnel**

The cost of services (i.e. salaries or fees) rendered by individuals hired by a related party and allocated in whole or in part to the Applicant must be accounted for at **carrying amount**, as defined in the CPA Canada Handbook. 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 such as taxable employee benefits may be included within these expenses.

The allocation of time devoted to the Production must be reasonable, appropriate and must be supported by documents such as T4's, tax returns, 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>7</sup> They must be:

- reasonable in the circumstances;
- included in the cost, or in the case of depreciable property the capital cost, of the Canadian film or video production to the qualified corporation or any other person or partnership (except another qualified corporation);
- incurred by the qualified corporation for the production stages of the property, from the production commencement time to the end of the post-production stage;
- directly attributable to the Canadian film or video production (there must be a clear link to specific work on the production); and
- paid in the tax year, or no later than 60 days after the end of the tax year

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

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

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

The accounting of these transactions must correspond to one of the following measures:

- (i) **Exchange value:** When the goods and services provider is a related party such transactions may be accounted for at **exchange value up to a maximum of fair value**, as defined in the CPA Canada Handbook. However, to be accounted for at exchange value, the expense must meet the criteria of: (1) expense is in the normal course of operations of provider, and (2) expense has commercial substance. Furthermore, if the goods and services are provided by the Parent company, the latter must correspond to

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<sup>7</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*.

the CRA's policy on Administration Fees<sup>8</sup>. Telefilm reserves the right to revise the admission criteria in cases of abuse of application or if certain amounts are unsubstantiated or deemed unreasonable.

- (ii) **Carrying amount:** When the goods and services are provided by the Applicant (i.e. same legal entity), such transactions must be accounted for at the **carrying amount**.
- (iii) **Actual cost:** When a related party charges an Applicant 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**.

**Actual cost** must be calculated based on the actual operating costs<sup>9</sup> incurred by the Applicant including but not limited to, acquisition costs or depreciation, electricity, rent, insurance, maintenance costs and repairs, cost of financing<sup>10</sup> such goods, property taxes, required permits, etc. that have been incurred directly for the production. Telefilm may use the annual financial statements of the Applicant to validate the actual operating costs.

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

#### 4.10 Versioning

In accordance with the Guidelines<sup>11</sup>, only the versioning expenses and services carried out in Canada by qualified private-sector companies using Canadian artists, actors, employees and technicians are admissible. Exceptions may be made in the case of an audiovisual treaty coproduction. Accordingly, the nationality of the versioning entity must be identified. See the disclosure note example set out in [Appendix 3](#), note 11.

#### 4.11 Non-monetary transactions

In accordance with these ARRs, non-monetary transactions are defined as per the CPA Canada Handbook. Non-monetary transactions are only admissible if executed with third parties. The Applicant and Independent Auditor must take particular care to ensure that all non-monetary transactions are supported by contractual agreements.

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<sup>8</sup> Canadian Film or Video Production Tax Credit (FTC) – Corporate Overhead

<sup>9</sup> Operating costs 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>10</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 Applicant finances the acquisition of assets through its liquid assets or line of credit, Telefilm allows 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.

<sup>11</sup> Canada Feature Film Fund, Marketing Program

The Independent Auditor must ensure that the nature of the goods or services provided, basis of measurement and amount are disclosed in a note to the FCACS. See the disclosure note example set out in [Appendix 3](#), note 12.

## **5 INDEPENDENT AUDITOR RESPONSIBILITIES**

The Independent Auditor selected by the Applicant for an audit or review engagement must be a member in good standing of a professional organization authorized for this type of work and must be duly accredited by their provincial institute. They must also be familiar with the audiovisual industry and these ARRs.

The auditor selected to certify the FCACS must be an independent third party, in reality and in appearance. This means that they must be free of any influence, interest or relationship that would affect their professional judgement or objectivity with regard to the engagement, or that could be interpreted by a reasonable observer as having that effect.

To ensure compliance with the independence requirement, Telefilm requires the Applicant to submit the Questionnaire on the Independence of the Independent Auditor »<sup>12</sup>, duly completed by its auditor. This questionnaire must be submitted to Telefilm either at the beginning of the work, for engagements in which safeguards have been put in place to ensure the auditor's independence, or, at the latest, along with the FCACS.

Telefilm reserves the right to refuse the FCACS if it deems that threats to the auditor's independence are not of an acceptable level.

Furthermore, it should be kept in mind that the firm responsible for certifying the FCACS, and all members of that firm, cannot be granted production credits other than "Auditor/audited by."

For simplicity purposes the term "Independent Auditor" is used throughout this document when making reference to the Independent Auditor for audit engagements or Public Accountant for review engagements.

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<sup>12</sup> <https://telefilm.ca/en/programmes/production-program>

## **APPENDIX 1**

**EXAMPLE OF INDEPENDENT AUDITOR'S REPORT /**

**EXAMPLE OF A REVIEW ENGAGEMENT REPORT:**

Please refer to the appropriate section in CPA Canada Handbook regarding these reports.

## APPENDIX 2

### FINAL COSTS DECLARATION (BUDGETS EQUAL TO OR LESS THAN \$250,000) IN DEVELOPMENT, PRODUCTION OR MARKETING:

Link to:

[Final Costs Declaration \(Budgets equal to or less than \\$250,000\)](#)



## **APPENDIX 3**

### **EXAMPLE NOTES TO THE FINAL CERTIFIED ACTIVITY COST STATEMENT (FCACS)**

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

## 1. Content

The Final Certified Activity Cost Statement applicable to the feature film entitled \_\_\_\_\_ (the "Production") for the period from \_\_\_\_\_ to \_\_\_\_\_ includes all costs incurred by \_\_\_\_\_ (the Applicant) with respect to this Production, including costs incurred but unpaid at the time this FCACS was prepared.

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

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

## 2. Significant accounting policies

Information must be provided on the accounting policies applied, along with a brief description of the application of any specific Telefilm rule on accounting and reporting.

### *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 Telefilm. The specific rules that differ from Canadian generally accepted accounting principles include the following:

- General: The costs compiled in this report do not take into account any reimbursable tax credit applicable to certified productions.
- 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 residual value of the asset(s) acquired is \$\_\_\_\_\_ and the amount of \$\_\_\_\_\_ was credited to budget line item(s) \_\_\_\_\_.
- 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)	Residual value

#### 4. Related-party transactions

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

Budget line item and Code	Description	Related party name and description of relationship	Measurement (actual cost, fair value/exchange amount or carrying amount)	Amount

- (i) The transactions related to the services rendered by employees of the related company were measured at carrying amount.
- (ii) 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:**

Budget code	Description	Amount

**Deferred costs:**

Budget code	Description	Amount

#### 6. Locked Budget Items

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

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

## 7. Non-Canadian costs

The Production or distribution costs include the following non-Canadian costs:

Budget line item and Code	Description	Amount

## 8. Foreign currency exchange (Production or distribution cost transactions)

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

Budget line item and Code	Amount

## 9. Sources and structure of financing

The following table sets out the final and interim sources of financing for the Production as at date of FCACS.

Name of funding source (including interim financing)	Total amount received	Total amount receivable (payable)	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 \$ \_\_\_\_\_.

## 10. Completion guarantee rebate

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

Budget line item and Code	Amount

## 11. Versioning

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

## 12. Non-monetary transactions

Budget code	Nature of the transaction	Basis of measurement	Amount

**13. Consulting fees**

<b>Budget code</b>	<b>Name of supplier</b>	<b>Description of service provided</b>	<b>Amount</b>