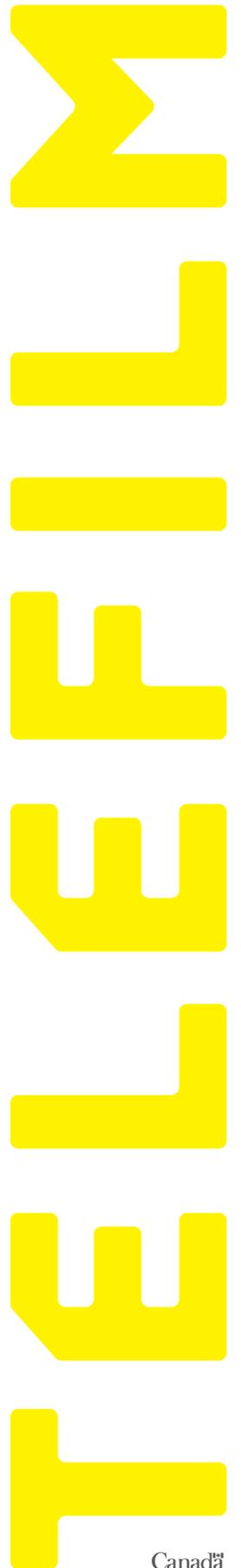


# **ACCOUNTING AND REPORTING REQUIREMENTS**

INDUSTRY PROMOTION

SEPTEMBER 19, 2016



## 1. INTRODUCTION

This document presents the requirements established by Telefilm Canada (“Telefilm”) with respect to the accounting and reporting of costs associated with events or initiatives having obtained funds from Telefilm Canada, “Accounting and Reporting Requirements – National and International Business Development”.

These Accounting and Reporting Requirements are intended for all organizations, companies or institutions whose mission it is to promote television programs, feature films and new media products or the professional development of the Canadian audiovisual industry, which have received funding from Telefilm.

They aim to convey the specific Telefilm requirements and rules concerning the accounting and reporting of costs, with particular regard to the preparation of Final Cost Reports (“FCR”) and Final Certified Activity Cost Statements (“FCACS”).

**For purposes of this document, “Activity” refers to the event or initiative for which a final cost report is required. The term “Organization” refers to the corporation, company or institution that has obtained funding from Telefilm.**

Please see Appendix 4, attached, for a detailed list of the terms and acronyms, and their definitions, used in these reporting requirements (“Glossary”).

In order to ensure that organizations use the contributions received in compliance with Telefilm objectives, the Corporation requires that said organizations provide certain financial reports, including a statement of Activity costs. Telefilm is entitled to examine the books of account and related records of the organizations as well as ensure that they are in compliance with these reporting requirements as set out in the standard contractual agreements with Telefilm (the “Contractual Agreements,” as defined in Appendix 4 in the Glossary).

These accounting and reporting requirements were developed to establish a standard for organizations seeking to obtain funding from Telefilm and that are required to report Activity-related revenues and expenses.

## 2. ORGANIZATIONS

Accounting and reporting requirements include the following:

- A. The maintenance of proper books of account and related records for the Activity for which funding has been provided, including:
  - accounting of revenues and expenses according to the fiscal reporting period
  - separate books of account for each activity, if applicable.
- B. Subject to section 4 in the present document, a Final Cost Report (FCR) or a Final Certified Activity Cost Statement (FCACS) must be submitted for each Activity funded by Telefilm on the date set out in the applicable Contractual Agreement.

The FCR or FCACS must be prepared in the standard format (see Appendices 1 and 2) and be accompanied by explanatory notes pertaining to all substantive variances. The notion of substantive variances is a matter of judgment and Telefilm reserves the right to require that explanatory notes be provided for all elements deemed to be essential.

The FCR or FCACS must be prepared in accordance with the Generally Accepted Accounting Principles (GAAP) published in the CPA Canada Handbook as well as the accounting and reporting requirements contained in this document.

- C. The organization must ensure that its accounting personnel, permanent as well as contractual, fully comprehends the GAAP and these accounting and reporting requirements.
- D. The organization must also ensure that its management and senior finance personnel:
- Have familiarized themselves with Telefilm's required documentation dealing with financial information. Such documentation, includes, among others:
    - i) Correspondence exchanged between Telefilm and the organization (legal advisors, independent public accountants or auditors);
    - ii) Standard budget (Appendix 1);
    - iii) These accounting and reporting requirements;
    - iv) Contractual agreements;
    - v) Telefilm funding application form for the Activity;
    - vi) The applicable program guidelines.
  - Have taken all necessary steps, when in doubt, to obtain clarification from Telefilm as to the interpretation of these accounting and reporting requirements and any other official Telefilm document and its binding clauses.

### 3. BUDGET

This section doesn't apply to the projects having access to a simplified application process (pre-approved activities).

All funding applications submitted to Telefilm must be accompanied by a detailed estimate of the total costs and funding sources, including details regarding grants/subsidies and sponsorships, whether in cash or in kind (the "Budget" as defined in Appendix 4 in the Glossary, attached).

The organization must use Telefilm's standard Budget for an Activity of National and International Business Development available for this purpose, included in Appendix 1 of this document.

The following should be considered when preparing the budget and submitting it to Telefilm:

- Telefilm's contribution is based in part on its assessment of funding sources and 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 and approved by Telefilm;
- Approval of the budget signifies Telefilm's provisional acceptance of the estimated costs and funding sources provided for the organization of the Activity. Final approval of actual costs and funding sources is only given after:
  - the evaluation of the FCACS or FCR;
  - any subsequent audit or examination performed by Telefilm.

provided that the documents noted above fulfil all contractual requirements and are in accordance with these accounting and reporting requirements;

- Approval of the budget by Telefilm must not be interpreted as final acceptance of the revenue and expense items provided for therein. In no case may the budget serve as the sole justification for these items.

#### **4. CERTIFICATION OF THE FINAL ACTIVITY COST STATEMENT BY AN INDEPENDENT AUDITOR**

For Activities in which Telefilm's contribution is equal to or above \$100,000, Telefilm requires that an FCACS be submitted using Telefilm's standard format, included in Appendices 1 and 2, accompanied by an independent auditor's report.

For Activities in which the contribution is less than \$100,000, the organization must, at the very least, submit an uncertified FCR, prepared using the standard format included in Appendix 1, and supported by an Affidavit (as set out in Appendix 3). However, Telefilm reserves the right to require that an independent auditor's report be submitted, at the organization's expense, no matter the level of Telefilm's contribution in the Activity.

#### **5. DOCUMENTS RELATED TO THE ACTIVITY**

The organization is required to retain, at its place of business or in an archival facility, books of account and documents related to the Activity funded by Telefilm for a period of five years from the year in which the Activity took place (as per the auditor's report or the affidavit). These items include the following, among others:

- Standard books of account (detailed general ledger, general journal, revenue and disbursement journal, accounting entries, payroll register, etc.);
- Bank reconciliation and monthly bank statements; including amounts received from all funding sources and cash outflows in respect of the Activity costs;
- Cleared cheques and/or disbursement vouchers and bank debit notes;
- Bank deposit slips stamped by the bank;
- Purchase invoices and/or supplier statements;
- Purchase orders or similar authorization for expenditures, signed by authorized personnel;
- Expense accounts and petty cash reports with corresponding receipts;
- Duly executed employment contracts;
- A list of all affiliated, associated or related companies or entities;
- All other documents in support of cost report and/or FCACS revenues and expenses.

#### **6. REQUIREMENTS PERTAINING TO ACTIVITY REVENUE AND EXPENSE ACCOUNTING AND REPORTING**

These accounting and reporting requirements were developed to take into account the requirements and responsibilities incumbent on Telefilm and the organization. In some cases, they supplement the GAAP, in others, they constitute exceptions to these principles.

Revenues and expenses must be directly related to the organization of the Activity and be supported by appropriate invoices or other similar relevant documentation ("Supporting Documentation") which, to the extent possible, provide a detailed description of the revenues and expenses, the payment date, the Activity to which these pertain, and the corporate name of the organization.

Any expense for which no adequate supporting documentation is provided will be deemed ineligible.

To the extent possible, all supporting documentation must correspond to the original document provided by sources external to the organization. These must be corroborated by relevant bank statements from the organization's account and by cleared cheques, if applicable.

## 6.1 Accounts receivable

The organization must indicate, by way of notes to the FCACS, the current total of all accounts receivable at the time of preparation of the FCR, and assign them the applicable budget code in the form described in Appendix 2.

## 6.2 Accounts Payable, Accruals

The organization 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, and assign them the applicable budget code in the form described in Appendix 2.

## 6.3 Related-party transactions

The value of any estimated related-party transaction included within the budget must be separately disclosed at the time of application, and the actual cost of the transaction must be disclosed within the FCR and the FCACS in the manner presented in Appendices 1 and 2 and as described in sections 6.3.1 and 6.3.2, below. Actual related-party transaction amounts and related balances owing are to be determined in accordance with Canadian generally accepted accounting principles (GAAP) and also in accordance with complementary rules adapted to the industry as established by Telefilm.

### Definitions

Section 3840 of the CPA Canada Handbook, “Related-Party Transactions,” includes the following definitions of “related parties,” “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 CPA Canada Handbook. The independent public accountant should be consulted in these matters.

### Telefilm recognizes two categories of related-party transactions:

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

#### 6.3.1 Related-party personnel

The cost of services (i.e., salaries or fees) rendered by individuals hired by the organization or a related entity and allocated in whole or in part to the Activity, must correspond to the actual amount paid to the individuals and be in accordance with the employment or engagement contract signed with the employer.

Such amounts must be supported by corresponding disbursements. Salaries paid must also correspond to the number of hours worked by the employees during the organization of the Activity and during the Activity itself. Related costs and employee benefits may be included in these expenses.

The allocation of time devoted to the Activity must be reasonable and appropriate and must be supported by documents such as income-tax slips, employment contracts, time sheets specifying the Activity.

In order for labour expenditures to be eligible, they must meet the following criteria:

- be reasonable in the circumstances;
- be included in the costs of the Activity;
- be incurred during the time the Activity occurred;
- be directly attributable to the Activity (there must be a clear link to the organization or the holding of the Activity).

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

As part of the activities surrounding the organization of the Activity, various goods or services owned by a related party may be used. These goods and services include but are not limited to space in a building, computers and related material, office equipment and furniture, etc.

Accounting of these transactions may conform to one of the following two methods:

- (i) If goods and services are supplied by a related entity, such transactions may be accounted for at the exchange value, as defined in the CPA Canada Handbook, section 3840. However, to be allowable, the expense must meet the criteria stated in section 6.3.1, above.
- (ii) When goods and services are supplied by the same legal entity as the company organizing the Activity, 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>1</sup> incurred by the organization, including but not limited to, electricity, rent, insurance, maintenance and repair costs, required permits, etc. that have been incurred directly for the organization of the Activity. Telefilm may use the organization's annual financial statements to validate the actual operating costs.

When a related entity charges the organization for goods or services supplied by a third party (e.g., telephone, photocopying, etc.), the value of the goods or services must be equal to the price paid by the related party. No profit margin can be charged on these goods and/or services. Such charges must correspond to the actual cost of the goods and services.

### **6.4 Non-eligible expenses**

The purchase of goods or equipment and all amortization expenses are not deemed allowable expenses. If applicable, these items must be deleted from the FCR and FCACS.

## **7. RESPONSIBILITIES OF THE INDEPENDENT AUDITOR**

The Independent Auditor selected by the Applicant for an audit 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

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<sup>1</sup> Operating expenses must be calculated according to the amount of time used and/or space required for the Activity. The organization must be able to justify the operating costs associated with the asset rented for the Activity, if applicable.

institute. They must also be familiar with the audiovisual industry and these ARR's.

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>2</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.

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<sup>2</sup> <http://telefilm.ca/en/funds-and-programs/general-information/business-policies>

## APPENDIX 1

### STANDARD BUDGET:

- FINAL CERTIFIED ACTIVITY COST STATEMENT
- FINAL COST REPORT (UNCERTIFIED)

Link to:

[Standard Budget / Financing Template – Promotion Program](#)  
for a National and International Business Development activity

Telefilm Canada's web-site: <http://www.telefilm.ca>

## **APPENDIX 2**

### **EXAMPLE OF REQUIRED SUPPORTING NOTES:**

- **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 \_\_\_\_\_ entitled \_\_\_\_\_ for the period from \_\_\_\_\_ to \_\_\_\_\_ includes all revenues and all expenses incurred by \_\_\_\_\_ (the organization) with respect to this Activity, including accounts receivable and costs incurred and unpaid at the time this FCACS was prepared.

All amounts reported herein are stated in Canadian dollars.

### 2. 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 Telefilm rule on accounting and reporting if:

- the accounting policy was chosen from among several acceptable accounting policies;
- accounting principles and methods specific to the 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 of disclosure of accounting policies*

The costs incurred relative to the Activity 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 generally accepted accounting principles include the following:

- a) Related-party transactions are measured either at the exchange amount or actual cost. The exchange amount is determined according to section 3840 of the CPA Canada Handbook.
- b) Other significant accounting policies.

### 3. Related-party transactions

Revenues and expenses include the following related-party transactions and amounts:

Budget code	Description	Name of related party and description of relationship	Measurement (actual cost or exchange amount)	Amount

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

### 4. Accounts receivable

Activity costs include accounts receivable. As at \_\_\_\_\_ (date of Final Cost Report), the Final Certified Activity Cost Statement includes the following unpaid balances:

**Accounts receivable are as follows:**

Budget code	Description	Amount

### 5. Accounts payable and accrued liabilities: Unpaid costs

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

**Accounts payable and accrued liabilities are as follows:**

Budget code	Description	Amount

## APPENDIX 3

### AFFIDAVIT

Link to:

[Affidavit for Final Costs for Event/Initiative \(if Telefilm's contribution is less than \\$100,000\)](#)

## **APPENDIX 4**

### **GLOSSARY**

## GLOSSARY<sup>3</sup>

**Accounting and Reporting Requirements, Industry Promotion** – The document dated September 19<sup>th</sup>, 2016 to which this Appendix is attached.

**Accrual** – the service is rendered and the invoice is not received, however the amount can be reasonably estimated.

**Activity** – Event or initiative as defined in the Contractual Agreements for which a cost report must be submitted to Telefilm Canada pursuant to Telefilm’s reporting requirements.

**Budget** – The final detailed estimate of the total costs of the Activity, prepared by the industry’s professional estimators hired by the organization. The budget is approved by Telefilm and is set out in accordance with the standard format as approved by Telefilm.

Link to the standard budget template for a National and International Business Development activity: [Standard Budget / Financing Template – Promotion Program](#)

**Contractual Agreement** – Generic term that refers to the various types of agreements between Telefilm and one or more profit-oriented organizations or non-profit organizations.

**Contribution** – is a conditional transfer payment to an individual or organization for a specified purpose pursuant to a contribution agreement that is subject to being accounted for and audited.

**CPA Canada Handbook** – Compendium of accounting and auditing standards that apply in Canada. Successor to the CICA Handbook.

**FCACS – Final Certified Activity Cost Statement** – The final cost report (FRC) that has been audited by an independent auditor. The auditor has also certified that, on the date of such statement, the information provided corresponds truly and accurately with the Activity’s final revenues and expenses and comply with Telefilm Canada’s “Accounting and Reporting Requirements.”

**FRC – Final Cost Report** – The final Activity cost report prepared by the organization that has obtained funding from Telefilm, and submitted in accordance with Telefilm’s standard format. The report sets out all costs paid, accrued and estimated (if applicable), until completion of the Activity, by comparing budgeted amounts. The FCR must be accompanied by explanatory notes regarding the substantive variances between budgeted amounts and final costs for each budget line category.

**Final Payment Application** – Refers to the Company’s application for final payment in accordance with the funding agreement and guidelines specifically applicable to the Activity.

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

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<sup>3</sup> This glossary is intended solely for the interpretation of the present document and should not be used for any other interpretation of Telefilm’s guidelines.

**Guidelines** – Document providing detailed rules and instructions concerning the management of Telefilm programs.

**Independent Auditor** – An independent public accountant, engaged by the organization to undertake certification of the FCACS. Said person must be a member in good standing of a professional organization authorized for this type of work and with its provincial institute. The Independent Auditor must be independent of the organization and its management team, within the definition of independence as defined by the provincial institute with whom the Independent Public Accountant is a member.

**Management** – (Ref. CPA Canada Handbook) Members of the management team, that is, any person(s) having authority and responsibility for planning, directing and controlling the organization's activities.

**Organization** – Refers to corporation, company or institution that has received funding from Telefilm for the organization of events or initiatives that promote or develop the Canadian audiovisual industry.

**Parent Company** – (Ref. CPA Canada Handbook) A corporation that has control over another corporation (subsidiary) that has the right and ability to obtain future economic benefits from the resources of the corporation under control and is exposed to the related risks. In this context, control of an enterprise means the continuing power to determine, without the co-operation of others, an enterprise's strategic operating, investment and financing policies.

**Payable** – the service is rendered and the invoice is received, however not yet paid at the time of the final cost report.

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