

AUDIT GUIDELINES

INTRODUCTION

The following audit guidelines apply to all of **MANITOBA FILM & MUSIC**'s production financing programs. The "ELIGIBILITY REQUIREMENTS" below also applies to **MFM**'s development financing programs.

ELIGIBILITY REQUIREMENTS

Applicants must be resident Manitoba producers. A resident Manitoba producer is defined as a producer who operates a production company in Manitoba that is majority owned and controlled by Manitoba residents or Manitoba businesses whose primary objective is either the production or the distribution of audio-visual projects. For eligible co-productions or co-ventures, the application must be submitted by the resident Manitoba Producer as defined above.

A resident is defined as a person who is legally entitled to be and remain in Canada, is ordinarily resident in Manitoba, and has been a resident of Manitoba for not less than three hundred and sixty-five (365) days immediately preceding the effective date of the **MFM** Production Investment Agreement.

A Manitoba business must have its head office and principal place of business located in Manitoba and includes a sole proprietorship, or a partnership operated by Manitoba residents as defined above, or a company, corporation or co-operative which is incorporated or registered pursuant to the laws of Manitoba where:

- A majority of the shares are owned, both equitably and beneficially, by persons who have been Manitoba residents for at least one year, and
- A majority of the directors have been Manitoba residents for at least one year.

Not-for-profit organizations are not eligible for MFM programs.

Co-productions and co-ventures (domestic or foreign) may be eligible for financing providing the resident Manitoba producer, as defined above, shares ownership in the project. The resident Manitoba producer must have voting share ownership in the single-purpose applicant company that is at

least proportionate to the level of Manitoba investment in the project, including equity, tax credits, producer investments, deferrals, etc. Furthermore, at least 50% of the directors and officers of the single-purpose production entity must be Manitoba residents. There must always be at least one Manitoba resident as a required signatory for the applicant company and this individual should also be a representative of the Manitoba parent company.

The intent is for the resident Manitoba producer to share control, management and creative decision making. In cases where there are more than two producing partners, control, management and creative decision-making shall reflect proportionately.

The production's bank account (under the Manitoban single-purpose applicant company in the case of co-productions or co-ventures) must be based in Manitoba; the bank's address on the cheques for the account must be a Manitoban address. In addition, the signature of at least one Manitoba resident must always be required for cheque signing authority.

The production team must be able to successfully manage and complete the project for which it is applying for financing. The onus is on the applicant to demonstrate the ability of the production team.

Manitoba should be the principal film location with the exception of documentaries. At **MF**M's sole discretion, projects with most of principal photography occurring outside of Manitoba may be allowed, provided **MF**M deems the project to be important for the development of the local industry and provided the project has sufficient Manitoba Expenditures to warrant an investment by **MF**M.

Projects applying for production funding must meet the Manitoba Content Requirements and Manitoba Training Requirements found in the applicable program guidelines (applicants for the Grant Program for Emerging Talent and Micro-Budget Production are exempt).

AUDIT OF PRODUCTION COSTS

Upon completion of the Project, an audited statement based on the final total cost report prepared by a certified accountant independent of the production company itemizing the total costs incurred and amounts expended on the Project will be required. An audit is required for productions with a budget greater than \$500,000. For productions with budgets ranging from \$200,000 to \$500,000, a review engagement report is required. For productions with a budget less than \$200,000, **MF**M will request a signed and duly notarized affidavit attesting to the total cost of production, where **MF**M may request receipts or other acceptable forms of documentation once an internal review is performed. Regardless of the budget level, **MF**M reserves the right to perform a random test of invoices and cancelled cheques, and this shall include contacting suppliers/payees

for verification. Copies of invoices and cancelled cheques shall be submitted upon request.

For the Grant Program for Emerging Talent and Micro-Budget Production, all monthly bank statements, all invoices, and all proofs of payment must be submitted with the final total cost report, and **MFM** reserves the right to randomly contact suppliers/payees for verification.

AUDIT OF MANITOBA EXPENDITURES

Upon completion of the Project, the total amount listed on the Manitoba Expenditures Form (Form B(2) - attached) must be audited by a third party certified accountant for productions with a budget greater than \$500,000. For productions with budgets ranging from \$200,000 to \$500,000, a review engagement report on the total Manitoba expenditures is required. For productions with a budget less than \$200,000, **MFM** will request a signed and duly notarized affidavit attesting to the final total amount of Manitoba expenditures, where **MFM** may request receipts or other acceptable documentation once an internal review is performed. **MFM** reserves the right to reduce its participation based on audit results, provided that the proportion of the reduction shall not exceed the proportion of the shortfall in Manitoba expenditures.

See Appendix 1 for MFM's Calculation Criteria for Manitoba Expenditures.

AUDIT/REVIEW ENGAGEMENT REQUIREMENTS

1) GENERAL

- The auditor must be a member in good standing with its Provincial Institute/Order or Association, having obtained approval for the provision of assurance services under its applicable governing body and must be an independent third party with no relation to the producers;
- The auditor's report must be addressed to the party that has engaged the auditor, that is, to the directors of the production company or to the producers of the production;
- The auditor's name, address and telephone number must be evident on the report;
- The auditor's report must be dated as at the completion of the audit fieldwork;
- The audit must be performed in accordance with Canadian Generally Accepted Auditing Standards and with principles generally recognized in the audio-visual industry;
- The auditor must have sufficient knowledge of the audio-visual industry and be familiar with the operations of the production company being audited;
- The auditor must have sufficient knowledge of sections 7.5(1) to 7.9 of the Manitoba Income Tax Act (entitled Film and Video Production Tax

Credit) as well as Manitoba Regulation 208/98 (entitled Manitoba Film and Video Production Tax Credit Regulation).

2) IDENTIFICATION OF THE PRODUCTION

- The title of the production and, when applicable, the episode numbers, must be disclosed;
- The title of the report must indicate the type of costs reported and conform as much as possible to the industry standard model (as required by Telefilm and CAVCO);
- The period during which the costs were incurred must be disclosed, and must correspond to the Commencement of Production Date and the Delivery Date included in the application form.

3) COST REPORT

- The cost report must be in Canadian dollars and conform as much as possible to the industry standard model (as required by Telefilm and CAVCO);
- Only expenditures that were incurred for the production can be recorded as production costs; these must be charged to the proper budgetary item;
- Refunds and credit notes received for discounts, rebates, invoicing errors, and purchase returns must be credited to the production costs; similarly, proceeds from the sale of props and other production assets must be deducted from the costs presented in the cost report. In cases where props and other production assets are kept in inventory for future productions, they must also be deducted, at fair market value, from the costs presented in the cost report;
- Completion bond expenditures must reflect any “no-claims rebate” received (the amount reported must be net after rebate);
- Amortization of series costs must be allocated to specific cost categories.

4) NOTES TO THE COST REPORT

i. Sources of Funds

All sources of funds that were used to finance the production must be disclosed, including any non-monetary transactions (as defined in Section 3830 of the CICA Handbook) that were included in the cost of production.

Non-monetary transactions must be disclosed at fair market value as at the ending date of the cost report. The nature of the services provided and the consideration given in exchange for the services must be disclosed. The methodology used to determine the fair market value of these transactions must be outlined.

If there were no non-cash transactions, the report must include a note to that effect. Note that non-monetary transactions with respect to eligible salaries are not claimable for tax credit purposes.

ii. Accounts Payable, Accrued Charges, Provisions, and Deferrals

The amounts of accounts payable, accrued charges, provisions, and deferrals must be presented separately as at the ending date of the cost report.

If there are no accounts payable, accrued charges, provisions, or deferrals, the cost report must include a note to that effect.

iii. Related Party Transactions

The notes to the Report of Production Costs must provide a breakdown of all related party transactions (as defined in Section 3840 of the CICA Handbook), and include:

- a) the name of the related party; and
- b) the nature of the relationship between the related party and the production company; and
- c) the nature of the transaction; and
- d) the amount of the transaction.

The methodology used to determine the fair market value of these transactions must be outlined.

If there are no related party transactions, the report must include a note to that effect.

APPENDIX 1

Calculation Criteria for Manitoba Expenditures

Note: These calculation criteria are to be used for MFM's funding programs, but are NOT appropriate for the Manitoba Film and Video Production Tax Credit.

General: A Manitoba expenditure refers to any production expense that is paid to a Manitoba resident or company.

Specific considerations:

Airfare: Include 50% regardless of how it is booked

Per Diem:

- Include 50% for Manitobans working outside Manitoba;
- Include 100% for Manitobans working inside Manitoba;
- Include 50% for non-Manitobans working inside Manitoba

Hotel/Accommodations:

- Include 0% outside Manitoba;
- Include 100% inside Manitoba

Vehicle Rentals:

- Include 0% outside Manitoba;
- Include 100% inside Manitoba

Interim Financing/Bank Fees:

- Include 100% if through a Manitoba bank account, regardless of where the account manager is located

Insurance: Include 100% if through a Manitoba insurance broker

Legal: Include 100% if through a Manitoba lawyer

BREAKDOWN OF MANITOBA EXPENDITURES (FORM B(2))

MANITOBA LABOUR & SUPPLIES/MATERIALS

	LABOUR	SUPPLIES & ALL OTHER COSTS	TOTALS
SECTION "A" above-the-line			
Manitoba Expenditures:			
Rural	\$ -	\$ -	\$ -
Urban	\$ -	\$ -	\$ -
Total Manitoba Expenditures	\$ -	\$ -	\$ -
Non-Manitoban Expenditures	\$ -	\$ -	\$ -
TOTAL "A" above-the-line	\$ -	\$ -	\$ -

SECTION "B" production			
Manitoba Expenditures:			
Rural	\$ -	\$ -	\$ -
Urban	\$ -	\$ -	\$ -
Total Manitoba Expenditures	\$ -	\$ -	\$ -
Non-Manitoban Expenditures	\$ -	\$ -	\$ -
TOTAL "B" production	\$ -	\$ -	\$ -

SECTION "C" post production			
Manitoba Expenditures:			
Rural	\$ -	\$ -	\$ -
Urban	\$ -	\$ -	\$ -
Total Manitoba Expenditures	\$ -	\$ -	\$ -
Non-Manitoban Expenditures	\$ -	\$ -	\$ -
TOTAL "C" post production	\$ -	\$ -	\$ -

SECTION "D" other			
Manitoba Expenditures:			
Rural	\$ -	\$ -	\$ -
Urban	\$ -	\$ -	\$ -
Total Manitoba Expenditures	\$ -	\$ -	\$ -
Non-Manitoban Expenditures	\$ -	\$ -	\$ -
TOTAL "D" other	\$ -	\$ -	\$ -
TOTAL "A", "B", "C", "D"	\$ -	\$ -	\$ -
TOTAL Manitoba Expenditures	\$ -	\$ -	\$ -
TOTAL Non-MB Expenditures	\$ -	\$ -	\$ -

NOTE: Total Expenditures MUST correspond to TOTAL BUDGET (pre-production stage) or TOTAL FINAL COSTS (final reporting stage).

ABOVE INFORMATION VERIFIED TRUE AND CORRECT

Authorized Signing Representative

Name:

Title:

TEMPLATE FOR AUDIT/REVIEW OF ENGAGEMENT REPORT

Report of Production Costs for
The Production Entitled "ABC"
For the period of _____(Production Commencement Time) to _____(end of post-
production)
The Production Co. Inc.

Auditor's Report / Review Engagement Report

To the Directors of
The Production Co. Inc.

We have **audited/reviewed** the **report of production costs and Manitoba expenditures** applicable to the production entitled "**ABC**" for the period from _____ to _____. This financial information is the responsibility of the producers. Our responsibility is to express an opinion on this financial information based on our **audit/review**.

For Audit:

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

For Review Engagement:

Our review consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the production's management. A review does not constitute an audit and consequently we do not express an audit opinion on this financial information.

In our opinion, this schedule presents fairly, in all material respects, the production costs/total Manitoba expenditures of the production entitled "**ABC**" for the period ended _____ in accordance with the Manitoba Film & Music Production Equity Guidelines.

Name of accounting firm
(City, Canada)
(Date)

AFFIDAVIT

(Affidavit for a production where Manitoba Film and Music is an equity investor and where the budget is less than \$200,000.00)

I, _____

of _____

in the city of _____

Province of _____

_____ MAKE OATH AND SAY:

1. THAT I am the Producer of the production _____
(hereinafter referred to as "The Production") and have personal knowledge of the matters deposed herein.

2. THAT the full cost of the production was _____

3. THAT the amount of the final Manitoba Expenditures totals _____

4. THAT the breakdown of Production costs and Manitoba expenditures attached hereto is complete and accurate in all details.

5. THAT I certify that I have complied with the Manitoba Film & Music Production Equity Guidelines.

(Please have a notary sign below)

SWORN before me in the city of _____

Province of _____

this _____ day of _____, 20____