



ABOUT THE CMF 

SUCCESSES 

FUNDING RESULTS 

FINANCIAL OVERVIEW 


APPENDICES 


 LOL




**Sales:** France, Korea, Norway, Sweden

## Financial Overview


 [Management Discussion and Analysis](#)


 [Management Statement of Responsibility](#)


 [Independent Auditors' Report and Financial Statements](#)

## Management Discussion and Analysis

### SECTIONS ON THIS PAGE

 [Overview](#)

 [Results of Operations](#)

 [Forward Looking](#)

*The review of the Corporation's financial position and operating results should be read in conjunction with the audited financial statements on the following pages. The results for 2010-2011 cover the period from April 1, 2010 to March 31, 2011 while the comparative numbers are for the period from April 1, 2009 to March 31, 2010.*

## RESULTS OF OPERATIONS

## Revenue

The Corporation's revenue includes amounts from the broadcasting distribution undertakings, the federal government through the Department, recoveries on production investments, and interest. Total revenue increased 10.8% in the fiscal year, from \$324.7 million in 2009-2010 to \$359.7 million in 2010-2011, after a 2.7% increase in 2009-2010.

Contributions from BDUs increased 10.3% or \$19.9 million in the fiscal year, from \$194.3 million in 2009-2010 to \$214.2 million in 2010-2011, after a 6.4% increase in 2009-2010. Since the CRTC mandated contributions to the CMF are a function of the BDU's revenue from broadcasting activities, as that revenue increases so do the BDU contributions to the CMF.

The Corporation received an 11.8% increase or \$14.2 million in federal government funding in 2010-2011, following several years of annual funding of \$119.5 million. The increase in the federal government funding in 2010-2011 was as a result of the joining of the former Canada New Media Fund (CNMF) with the former Canadian Television Fund (CTF) and their related federal financial commitments to create the Canada Media Fund.

Recoveries on production investments decreased 4.2% or \$0.4 million in the fiscal year, from \$9.9 million in 2009-2010 to \$9.5 million in 2010-2011, after a 4.2% increase in 2009-2010. Recoveries on production investments include repayment of development advances and recoupment of equity investments in CMF-funded programs.

Interest increased by 231.5% or \$1.3 million in the fiscal year, from \$0.5 million in 2009-2010 to \$1.8 million in 2010-2011, after a decrease of 624.5% in 2009-2010. Interest revenue increased in the fiscal year due to a higher investment balance and slightly higher interest rates.

## Expenses

Total expenses increased 36.5% or \$12.4 million in the fiscal year, from \$339.4 million in 2009-2010 to \$351.8 million in 2010-2011, following an increase of 14.3% in 2009-2010. Program commitments represent 95.1% of total expenses in the fiscal year, a reduction from the 95.9% of total expenses in 2009-2010. The balance of the expenses, or 4.9% of total expenses in the fiscal year, is administrative expenses and industry partnerships.

### Program Expenses

Total program commitments increased about 2.7% or \$8.9 million in the fiscal year, from \$325.6 million in 2009-2010 to \$334.5 million in 2010-2011. The CMF provides financial contributions to Canadian producers through two program streams. The convergent stream supports multi-platform Canadian projects: they provide content on at least two distribution platforms, one of which is television. The experimental stream encourages the creation of leading-edge, interactive, digital media content and software applications. The program commitments in the fiscal year were \$310.4 million and \$26.9 million in the convergent stream and experimental stream respectively. Prior year negative adjustments of about \$2.9 million were also reflected in the fiscal year.

The financial contributions can be made in a variety of funding forms depending on the funding stream, all of which are expensed in the fiscal year in which the CMF approves a commitment to the project. The payments to the producer are made over several years as the project is being completed and on the completion of the deliverable requirements.

### Administrative Expenses

Administrative expenses totaled \$17.3 million in the fiscal year, an increase of 25.3% or \$3.5 million, from \$13.8 million in 2009-2010 to \$17.3 million in 2010-2011, following an increase of 1.6% in 2009-2010.

Under the terms of the Contribution Agreement, CMF's administrative expenses (excluding industry partnerships) are capped at 6% of revenue. In the fiscal year, the administrative expenses were 4.6%, compared to 4.1% in 2009-2010.

Included in expenses are those incurred directly by the CMF and those incurred by the CMF Program Administrator, Telefilm Canada.

The CMF has outsourced the file administration activities to Telefilm Canada through a services agreement. With the implementation of the CMF Program in the fiscal year, Telefilm received an increase of 89% or 884 additional applications. Total file administration expenses in the fiscal year increased \$2.8 million or 37.7% in the fiscal year, from \$7.5 million in 2009-2010 to \$10.3 million in 2010-2011. The remainder of the increase in expenses in the fiscal year over the prior year is attributable to marketing and communications expenses to promote the CMF, travel for industry events, consulting and salaries, offset by reductions in consultation, board and other administrative expenses.

### **Industry Partnerships**

Industry partnerships increased by 95.4% in the fiscal year, increasing from \$0.4 million in 2009-2010 to \$0.8 million in 2010-2011. The CMF partnership program in the fiscal year expanded to include the digital media industry to reflect the new CMF mandate.

### **Cash Flow and Reserves**


Monthly payments are received from the BDUs. The CMF invoices the Department monthly in arrears based on payments to producers. Repayment of development advances are received throughout the year and the majority of recoupment is received twice a year.

The CMF invests any funds not required for operations; most investments are in low-risk federal or provincial securities. The Corporation's investments are drawn on as required to fund current and prior years' contractual obligations.

The CMF maintains unrestricted and restricted reserves. The funds in the reserves are accumulated through the receipt of revenue in excess of budget and program and administrative under spending. Funds accumulated in reserves are used to support the following year program budget. In the fiscal year \$7.9 million was contributed to the unrestricted reserve.

At the end of the fiscal year, there was \$38.4 million in unrestricted reserves, and \$33.8 million in restricted reserves. At the end of 2009-2010, there was \$21.7 million in an unrestricted reserve and \$42.5 million in restricted reserves.

A restricted reserve for the settlement of expenses in the event of dissolution of the CMF was increased in the fiscal year from \$6.6 million to \$9.9 million, a restricted reserve of \$21.6 million was created to support the 2011-2012 program budget, and a restricted reserve of \$2.2 million to support the extension of the 2010-2011 English POV program was created.

[Back to top](#) 

## **FORWARD LOOKING**

The Corporation has entered into a Contribution Agreement with the Department for 2011-2012. The agreement is consistent with the prior year's agreement. The Corporation anticipates total revenue of \$353.6 million and total expenses of \$391.1 million. The shortfall between total revenues and total expenses will be funded by an allocation from the restricted reserve of \$21.6 million, and the balance of \$15.9 million will be drawn from the unrestricted reserve.

The CMF program budget is \$371.0 million, \$338.0 million for the convergent stream and \$33.0 million for the experimental stream. Total administrative expenses are expected to be \$19.0 million, or 5.4% of total revenue, which is an increase over the prior year of about \$1.9 million, or 15.1%.

The increases in administrative expenses include additional file administrative expenses of \$0.8 million or 8.1% higher than in the prior year, a reflection of the second year of the CMF program which is a more complicated program to administer than the CTF program. The remaining increase in administrative expenses of \$1.1 million includes additional staff, consulting and research studies, enhanced communication and reporting, and some overhead.

Industry partnerships are expected to be \$1.1 million, an increase of \$0.3 million or 37.5% due to a larger communication program.

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### Key Site Links

- ▶ [About the CMF](#)
- ▶ [Successes](#)
- ▶ [Funding Results](#)
- ▶ [Financial Overview](#)
- ▶ [Appendices](#)

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