

FINANCIAL STATEMENTS

INDEPENDENT PRODUCTION FUND

December 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Directors of the
Independent Production Fund

We have audited the accompanying financial statements of the Independent Production Fund, which comprises the statements of financial position as at December 31, 2017 and the statements of operations, changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Independent Production Fund as at December 31, 2017 and the results of its financial performance and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Toronto, Ontario
March 29, 2018

Chartered Professional Accountants
Licensed Public Accountants

Independent Production Fund
STATEMENT OF FINANCIAL POSITION

December 31	2017	2016
	\$	\$
ASSETS		
OPERATING FUND		
Cash	143,624	263,264
Accrued investment income receivable	94,719	122,522
Miscellaneous receivables	108,327	23,186
Other receivables		
BC Film	10,000	10,000
Prepaid expenses	4,861	4,861
Investments, at fair value	<u>15,229,142</u>	<u>14,767,381</u>
	15,590,673	15,191,214
RESTRICTED FUND		
Investments, at fair value	21,200,000	21,200,000
Total assets	<u>36,790,673</u>	<u>36,391,214</u>
LIABILITIES AND FUND BALANCES		
OPERATING FUND		
Accounts payable - [note 4]		
BC Film	5,000	5,000
Accrued liabilities	27,881	51,259
Fund balance [note 3]	<u>15,557,792</u>	<u>15,134,955</u>
	15,590,673	15,191,214
(COMMITMENTS - SEE NOTE 5)		
RESTRICTED FUND		
Fund balance [note 3]	21,200,000	21,200,000
Total liabilities and fund balances	<u>36,790,673</u>	<u>36,391,214</u>

see accompanying notes

Approved by the Board:

Director

Director

Independent Production Fund
STATEMENT OF OPERATIONS

Year ended December 31	2017	2016
	\$	\$
OPERATING FUND		
Revenue		
Investment [note 7]	1,065,984	5,051,360
Recoupments	139,019	461,433
BC Film [note 4]	-	5,000
Innovations PEI [note 4]	-	2,500
	<u>1,205,003</u>	<u>5,520,293</u>
Expenses		
Administrative	53,299	252,568
Restricted Fund Program expenses	254,883	60,581
Investment management	154,263	91,891
	<u>462,445</u>	<u>405,040</u>
Earnings from operations before funding distributions	<u>742,558</u>	<u>5,115,253</u>
Funding distributions by		
Independent Production Fund [note 5]	1,689,686	1,920,994
BC Film	-	5,000
Innovations PEI	-	2,500
	<u>1,689,686</u>	<u>1,928,494</u>
Earnings (loss) from operations for the year	(947,128)	3,186,759
Unrealized gain (loss) on investments [note 7]	1,369,965	(3,214,512)
Increase (decrease) in net assets from operations for the year	<u>422,837</u>	<u>(27,753)</u>

see accompanying notes

Independent Production Fund
STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31	2017	2016
	\$	\$
OPERATING FUND		
Balance, beginning of year	15,134,955	15,162,708
Increase (decrease) in net assets from operations for the year	422,837	(27,753)
Balance, end of year	15,557,792	15,134,955
RESTRICTED FUND		
Balance, beginning of year and end of year	21,200,000	21,200,000

see accompanying notes

Independent Production Fund
STATEMENT OF CASH FLOWS

Year ended December 31	2017	2016
	\$	\$
OPERATING FUND		
Operating Activities		
Cash received from investments, recoupment of funding distributions and other funds	1,332,576	1,525,851
Cash paid to suppliers	(570,964)	(389,654)
Cash paid for funding distributions	<u>(1,689,686)</u>	<u>(1,928,494)</u>
Cash provided by (used in) operating activities	<u>(928,074)</u>	<u>(792,297)</u>
Investing Activities		
Proceeds on sale of investments [note 7]	8,491,258	72,809,365
Purchase of investments [note 7]	<u>(7,682,824)</u>	<u>(71,871,284)</u>
Cash provided by (used in) investing activities	<u>808,434</u>	<u>938,081</u>
Increase (decrease) in cash during the year	(119,640)	145,784
Cash, beginning of year	263,264	117,480
Cash, end of year	143,624	263,264

see accompanying notes

Independent Production Fund
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

1. NATURE OF ORGANIZATION

The Independent Production Fund [the "Foundation"] was incorporated as a corporation without share capital under the laws of Canada on July 12, 1989.

The Foundation extends financial assistance to independent production companies for the production of Canadian television drama series (including children's series) for private sector broadcasters and web drama series. The Foundation also provides financing for professional development grants to television organizations and associations.

The Foundation is a registered charity under the Income Tax Act (Canada) and is classified as a private foundation. While registered, the Foundation may issue tax-deductible receipts to donors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations and include the following significant accounting policies.

Financial statement preparation

The financial statements have been prepared on a restricted fund basis. The fund balances are described as follows:

A. Operating Fund

All operations of the Foundation are included in the Operating Fund and include investment income, operating and administrative expenses, funding distributions and realized and unrealized gains and losses on investments.

B. Restricted Fund

The Restricted Fund is restricted in perpetuity under the terms of the agreement at the time the Foundation was incorporated. Income earned on the Restricted Fund is the property of the Operating Fund and consequently, is included in the Operating Fund. Accordingly, Statements of Operations and Cash Flows for the Restricted Fund are not provided.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include the amount of sales tax to be recovered in other receivables and the ultimate realization of the fair value of the investments. Actual results could differ from the estimates.

Independent Production Fund
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash

Cash is defined as cash in bank less outstanding cheques.

Investments - Operating Fund and Restricted Fund

Investment transactions are recorded on the settlement date and the investments are recorded at fair value. The investments are comprised of Canadian equity pooled funds and fixed income securities including Canadian treasury bills, bonds, debentures and notes.

Valuation

The fair value of investments as at the financial reporting period end is determined as follows:

- a) Securities listed upon a recognized public stock exchange are valued at their bid prices for investments owned.
- b) Short-term notes, treasury bills and bonds are valued at the average bid quotations from recognized investment dealers.

Transaction costs

Transaction costs are incremental costs other than portfolio fees that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. The Foundation does not incur such transaction costs.

In the Statement of Cash Flows, for the Operating Fund, the proceeds on sale of investments and the purchase of investments have been shown net of short-term investment transactions consisting of bank term-deposits, Canadian treasury bills and Government of Canada bonds with maturities under 365 days.

Revenue recognition - Operating Fund and Restricted Fund

The Foundation uses accrual accounting whereby interest revenue is recognized as earned, dividend revenue is recognized as received and realized gains and losses on investment transactions are recognized on the settlement date.

Realized and unrealized gains and losses from investment transactions are calculated on an average cost basis.

As part of the financing agreements entered into with independent production companies, the Foundation may receive recoupments from completed and broadcast productions. Such recoupments, which depend on the ultimate profitability of a production, are recognized as revenue when received.

Independent Production Fund
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Funding distributions - Operating Fund

The financing agreements entered into by the Foundation with independent production companies contain specific milestones that must be achieved by the production companies in order for them to be entitled to funds. The Foundation recognizes, as funding distribution expense in the Statement of Operations, its obligations under those agreements when the specific milestones have been achieved. Funding commitments for projects with unachieved milestones are reflected in the commitments note to the financial statements.

Administrative expenses - Operating Fund

The Foundation provides administrative support to various organizations which operate on a similar basis as the Foundation. The Foundation collects fees from these organizations, which are based on the cost of providing the service. Fees from such arrangements amounted to \$174,791 (2016 - \$169,305) and are recorded as a reduction of administrative expenses.

Capital Assets

The Foundation expenses all capital assets that are not material in cost. Such capital assets would generally be office furniture and equipment and computer equipment of a replacement nature for existing capital assets. If, in any year, capital assets additions exceed the above noted limit, they would be amortized over their estimated useful life of three to five years on a straight line basis.

3. OBJECTIVES, POLICIES AND PROCESSES FOR MANAGING CAPITAL

The Foundation's capital is comprised of the net assets invested in unrestricted funds in the Operating Fund and externally restricted funds in the Restricted Fund.

The Foundation invests the unrestricted funds to ensure that the organization has administrative facilities suitable for management to administer its various programs on an annual basis while maintaining the investments in the Restricted Funds as required.

Management prepares operating budgets which are reviewed, approved and monitored by the Board of Directors. Investments are made based upon the estimated timing of funding requirements and material investment decisions are approved by the Board of Directors.

Independent Production Fund
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

4. OTHER FUNDS

a) BC Film

In 2013, the Foundation agreed to administer contributions from BC Film by supporting appropriate productions. The activities on account of BC Film are:

	2017	2016
	\$	\$
Funds available, beginning of year: (uncommitted 2017 - \$nil)	5,000	10,000
Funds distributed to production companies	-	(5,000)
Funds available, end of year	5,000	5,000

Of the funds available, at end of year, \$5,000 is committed to a production companies. These amounts are reflected as accounts payable on the Statement of Financial Position.

b) Innovations PEI

In 2010, the Foundation agreed to administer a web series program in conjunction with Innovations PEI. The activities on account of Innovations PEI are:

	2017	2016
	\$	\$
Funds available, beginning of year: (uncommitted 2016 - \$nil, 2015- \$nil)	-	2,500
Funds distributed to production companies	-	(2,500)

Of the funds available at end of year, \$0 is committed to production companies and \$0 is uncommitted. These amounts are reflected as accounts payable on the Statement of Financial Position.

Independent Production Fund
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

5. COMMITMENTS

a) Fund Distributions

During 2017, the Foundation authorized funding for ongoing projects, excluding the Other Funds set out in note 4, that were not completed. As a result, at year-end, there existed commitments to pay certain amounts as follows:

	Commitment Outstanding \$	Paid \$	Outstanding at year-end \$
Funding authorized in 2017			
Special project grants	175,400	(90,900)	84,500
Web series	<u>1,951,000</u>	<u>(590,000)</u>	<u>1,361,000</u>
	2,126,400	(680,900)	1,445,500
Funding authorized in 2016 not yet paid	1,073,500	(837,250)	236,250
Funding authorized in 2015 not yet paid	380,286	(163,536)	216,750
Funding authorized in 2014 not yet paid	131,250	(8,000)	123,250
Funding authorized in 2013 not yet paid	6,250	-	6,250
Funding authorized in 2012 not yet paid	6,250	-	6,250
Funding authorized in 2011 not yet paid	6,250	-	6,250
	<u>3,730,186</u>	<u>(1,689,686)</u>	<u>2,040,500</u>

Independent Production Fund
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

5. COMMITMENTS (continued)

b) Lease Commitments

The Foundation has operating lease commitments for office facilities and equipment with annual lease payments in each of the following years of approximately:

	\$
2018	72,264
2019	72,264
2020	24,088
	168,616

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

a) Risk exposure and management

The Foundation's investment activities expose it to a variety of financial risks, as defined in section 3856 of the CPA Canada Handbook. The Foundation's exposure to financial risks is concentrated primarily in its investment portfolio and the significant relevant risks are discussed below.

b) Concentration of investment risk for investment portfolio

Concentration risk arises when the Foundation invests in a limited number of individual securities or in securities within a limited number of industry sectors.

The Foundation's portfolio of investments includes a number of different individual investments and industry sectors within the broad classification of equities, fixed income bonds and debentures and pooled funds, the latter holding both Canadian and non-Canadian dollar denominated securities. The Board of Directors of the Foundation seeks to minimize the potential adverse effects of these risks by engaging an independent professional investment manager to manage the portfolio, diversifying the investment portfolio and by providing the investment manager with specific investment guidelines against which the performance of the portfolio is monitored. The Foundation's portfolio of investments are held for safekeeping by an independent trust company which provides the Foundation with a monthly report, based on the settlement date, of investment transactions by the investment manager.

The Foundation is satisfied that there is no significant exposure from loss on the realization of its investment portfolio due to the concentration of the investments in either a limited number of individual investments or in a particular industry sector.

Independent Production Fund
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

c) Credit risk

Credit risk is the risk that a counterpart to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Foundation including the trading of securities and the collection of receivables.

All investment transactions are in securities listed on a recognised Canadian stock exchange and are executed with an approved broker. To minimize the possibility of settlement default, securities are exchanged for payment simultaneously through the facilities of a central depository and/or clearing agency.

The Foundation is satisfied that there is no significant exposure to losses from credit risk for the investment portfolio.

Other financial assets include the receivables, which represent accrued interest on bonds held in the investment portfolio and the sales tax recoverable, and accordingly, the Foundation does not have significant exposure from the collection of the receivables.

d) Currency risk

Currency risk arises when the fair value of financial instruments denominated in a currency other than the Canadian dollar, which is the Foundation's reporting currency, fluctuate due to changes in exchange rates.

At year-end, the Foundation's portfolio of investments includes approximately 35.6% (2016 - 17.3%) of investments denominated in foreign currencies, primarily U.S dollars, and which are converted to their Canadian dollar equivalent at the year-end exchange rate.

The Foundation is satisfied that there is no significant exposure to losses from currency risk for the investment portfolio.

Independent Production Fund
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

e) Interest rate risk

Interest rate risk arises when the fair value of interest-bearing financial instruments fluctuates due to changes in the prevailing levels of market interest rates. Cash, short-term investments, accounts receivable and accounts payable and accrued liabilities do not expose the Foundation to significant amounts of interest rate risk.

Fixed rate long-term government and corporate bonds and debentures represent 38% (2016 - 43.9%) of the portfolio of investments and the effective interest rate realized during the year was 2.6% (2016 - 3.6%).

The bonds and debentures are issued by various government and corporate entities and are for different maturity dates.

The Foundation is satisfied there is no significant exposure to losses from interest rate fluctuations.

f) Liquidity risk

Liquidity risk arises when the Foundation encounters difficulty in meeting its financial obligations as they come due.

At the end of the year, the Foundation's portfolio of investments includes 17.1% (2016 - 5.3%) of Canadian Government Treasury bills.

The Foundation is satisfied that there is no significant exposure from liquidity risk.

Independent Production Fund
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

g) Other price risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk (the first two of which have been discussed in 6d and 6e above).

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices whether caused by factors specific to an individual investment, its issuers, or other factors affecting all instruments traded in a market or market segment. All investments present a risk of loss of capital. This risk is managed through the careful selection of investments and other financial instruments within the parameters of the Foundation's investment strategy and is monitored as set out in 6a above. The Foundation does not invest in options, futures or other derivative contracts. The Foundation's most significant exposure to price risk arises from its investments in equity securities which at year-end represented 60.2% (2016 - 56.0%) of the investment portfolio.

As set out in 6a above, the Foundation employs a professional investment manager and reviews the performance of the manager against specific investment criteria. The investment portfolio is represented by securities traded on a recognized stock exchange and, by its the long-term nature and diversity, does not include any material dollar amount of securities with significant terms or conditions that would materially affect the amount, timing or certainty of future cash flows.

7. INVESTMENT INCOME

During 2016, the Organization changed investment advisors which resulted in larger than normal realized capital gains and a larger than normal unrealized loss on investments.

8. SUBSEQUENT EVENT

Effective January 1, 2018, the Organization assumed responsibility for the Cogeco Production Program. The Organization assumed commitments for advances to producers of \$1,953,000 from the Cogeco Program Development Fund. During 2018, the Organization will receive \$3,142,149 from the Cogeco Program Development Fund. Starting January 1, 2018, the Organization started receiving any recoupment revenue and recovery of development advances on existing and future programs. The Organization will also receive all Cogeco Communications Inc. contributions as mandated by the CRTC.