

# Management Discussion and Analysis

*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 2011–2012 cover the period from April 1, 2011 to March 31, 2012 while the comparative numbers are for the period from April 1, 2010 to March 31, 2011.*

## Results of Operations

### Revenue

The Corporation's revenue includes amounts from the broadcasting distribution undertakings (BDUs), the federal government through Canadian Heritage, recoveries on production investments, and interest. Total revenue increased 1.6% in the fiscal year, from \$359.7 M in 2010–2011 to \$365.4 M in 2011–2012.

Contributions from BDUs increased 1.9% or \$4.0 M in the fiscal year, from \$214.2 M in 2010–2011 to \$218.2 M in 2011–2012. As mandated by the CRTC, BDU contributions to the CMF are a function of BDU revenue from broadcast activities. As that revenue increases so do BDU contributions to the CMF.

The federal government funding of \$134.1 M in 2011–2012 was consistent with 2010–2011.

Recoveries on production investments increased by 8.0% or \$0.8 M in the fiscal year, from \$9.5 M in 2010–2011 to \$10.3 M in 2011–2012. Recoveries on production investments include repayment of development advances and recoupment of equity investments in CMF-funded programs.

Revenue from interest increased by 54.6% or \$1.0 M in the fiscal year, from \$1.8 M in 2010–2011 to \$2.8 M in 2011–2012. Interest revenue increased due to a \$0.5 M fair value adjustment related to the long-term investment; a higher short-term investment balance and a slightly higher interest rate.

### Expenses

Total expenses increased 5.8% or \$20.5 M in the fiscal year, from \$351.8 M in 2010–2011 to \$372.3 M in 2011–2012. Program commitments represent 95.4% of total expenses in the fiscal year, an increase from 95.1% of total expenses in 2010–2011. The balance of the total expenses, or 4.6%, includes industry partnerships, general and administrative, program administration, and amortization.

Under the terms of the Contribution Agreement with Canadian Heritage, CMF's total administrative expenses (excluding industry partnerships) are capped at 6% of total revenue. In the fiscal year, the total administrative expenses were \$16.0 M or 4.3% of total revenue, compared to 4.6% in 2010–2011.

### Program Commitments

Total program commitments increased by 6.2% or \$20.8 M in the fiscal year, from \$334.5 M in 2010–2011 to \$355.3 M in 2011–2012. The CMF provides financial contributions to Canadian producers through two program streams: Convergent and Experimental. The Convergent Stream program commitments increased by \$16.4 million, from \$310.4 M in 2010–2011 to \$326.8 M in 2011–2012. The Experimental Stream program commitments increased by \$6.0 million, from \$26.9 M in 2010–2011 to \$32.9 M in 2011–2012. Adjustments to prior years commitments of \$4.4 M were also reflected in the fiscal year.

The financial contributions can be made in a variety of funding forms depending on the program 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.

### Industry Partnerships

Industry partnerships increased by 42.1% or \$0.3 M in the fiscal year, from \$0.8 M in 2010–2011 to \$1.1 M in 2011–2012. The CMF partnership program in the fiscal year included additional digital media and international events as well as some increased support for television industry events.

### General and Administrative Expenses

General and administrative expenses decreased by 14.0% or \$0.9 M in the fiscal year, a decrease from \$6.1 M in 2010–2011 to \$5.3 M in 2011–2012. The reduction in these expenses in the fiscal year was primarily due to the one-time savings in risk management category of about \$0.6 M and the deferral of some program related activities to 2012–2013.

### Program Administration Expenses

The CMF outsources the file administration activities to Telefilm Canada through a services agreement. Total file administration expenses in the fiscal year increased \$0.2 M or 2.4%, from \$10.3 M in 2010–2011 to \$10.5 M in 2011–2012.

## Cash Flow and Reserves

Monthly payments are received from the BDUs. The CMF invoices Canadian Heritage 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. As stipulated in the Corporation's policy, investments are in low-risk short-term instruments, federal or provincial securities. The Corporation's investments are drawn on as required to fund 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 underspending in expenses. Funds accumulated in reserves are used to support the following year's program budget. In 2011–2012, \$7.6 M was drawn from the unrestricted reserve.

At the end of the fiscal year, there was \$30.7 M in unrestricted reserves, and \$34.5 M in restricted reserves. At the end of 2010–2011, there was \$38.4 M in an unrestricted reserve and \$33.8 M in restricted reserves.

The restricted reserves at March 31, 2012 include \$9.9 M for the settlement of expenses in the event of a dissolution of the CMF and \$24.5 M to support the 2012–2013 program budget. The restricted reserves at March 31, 2011 included \$21.6 M to support the 2011–2012 program budget and \$2.2 M to support the extension of the 2010–2011 English POV program. These reserves were released during the fiscal year.

## Forward Looking

The Corporation will enter into a Contribution Agreement with Canadian Heritage for 2012–2013 for the amount of \$134.1 million, which is consistent with the prior year's agreement. The Corporation anticipates total revenue of \$370.1 M and total expenses of \$394.6 million. The shortfall between total revenues and total expenses will be funded by an allocation from the restricted reserve of \$24.5 million.

The CMF program budget for 2012–2013 is \$375.0 M including \$339.0 M for the Convergent Stream and \$36.0 M for the Experimental Stream. Also included in total expenses are industry partnerships of \$1.2 million; general and administrative expenses of \$7.3 million; and program administration expenses of \$11.1 million. Total administrative expenses are expected to be \$18.4 million, or 5.0% of total revenue.

Industry partnerships are expected to increase by \$0.1 M the program going forward will support venture capital partnerships and more international events. The remaining increase in administrative expenses of \$2.0 M includes additional administrative staff and the annualization of compensation expenses for other mid-year hires, digital media measurement, risk management, and marketing and communications expenses deferred from the prior year. The increases in administrative expenses include additional program administrative expenses of \$0.6 million.