

Maryland Department of Commerce
Maryland Film Production Activity Tax Credit
AGREED UPON PROCEDURES

GUIDELINES

An independent, third-party auditor's report on Agreed Upon Procedures is required as part of the Application for Final Tax Credit Certification.

This report, along with the Application for Final Tax Credit Certification, must be submitted within 180 days of the wrap date of the film production activity in the State of Maryland.

The report must be performed by a licensed CPA. The CPA must be licensed in Maryland in order for the cost to qualify for the tax credit.

A draft engagement letter outlining sample sizes and percentages must be approved by the Department of Commerce ("the Department") prior to the commencement of principal photography of the film production activity in the State. The Department will determine sample sizes and percentage rates. Sample sizes and percentage rates may be reevaluated annually for television series based on prior season's auditor's report.

Following, is the *DRAFT* report and a summary of the minimum procedures to be performed and the associated findings (Exhibit A). Minimum procedures may be reevaluated annually for television series based on prior season's auditor's report.

rev 04/24/17

DRAFT REPORT

INDEPENDENT AUDITOR’S REPORT ON APPLYING AGREED-UPON PROCEDURES

To **[Film Production Entity]** and the Maryland Department of Commerce (“the Department”):

We have performed the procedures enumerated in the attached Exhibit A below, which were agreed to by the **[Film Production Entity]** (the Film Production Entity) and the Department, solely to assist you in evaluating the completeness and accuracy of the accompanying Application for Final Tax Credit Certification for the production, **[Production Title]** (the Production). We followed these procedures to demonstrate compliance with the criteria specified by the Department for qualifying the total direct costs incurred by the Film Production Entity for the Production. The Film Production Entity’s management is responsible for maintaining records of the information contained in the Application for Final Tax Credit Certification for the Production. This agreed-upon procedures (AUP) engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA). The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of these procedures except as specified in the attached Exhibit A below.

The summary of procedures and associated findings are as set forth in Exhibit A below.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the completeness and accuracy of the accompanying Application for Final Tax Credit Certification for the Production. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Film Production Entity and the State of Maryland and is not intended to be and should not be used by anyone other than these specified parties.

[Firm’s Signature]
[Location of Firm (City, State)]
[Report Date]

EXHIBIT A

The following minimum procedures will be performed:

Film Production Entity Qualification Procedures

1. The CPA will review Maryland’s Film Production Activity Tax Credit statute, Tax-General Article, Section 10-730, of the Maryland Annotated Code, any related regulations and any other guideline materials provided by the Department which can be found on the Maryland Film Office website – <http://www.marylandfilm.org/Pages/Film-Production-Activity-Tax-Credit.aspx>.
2. The CPA will review the Film Production Entity’s Application for Final Tax Credit Certification to the Department, and agree the Qualified Total Direct Costs amount to trial balance detail provided by the Film Production Entity.
3. Review the financial records to determine that the Film Production Entity has incurred a minimum of \$500,000 of qualified total direct costs in Maryland.
4. Obtain documentation of all Production expenses (*straight run of the full general ledger*) and total principal photography days for the Production (*all call sheets for the length of production*).
5. Obtain a schedule or analysis of qualified total direct costs incurred in Maryland for the Production (*straight run of the general ledger for Maryland qualified costs only*).
6. Obtain a schedule or analysis of total principal photography days filmed in Maryland.
7. Confirm that 50% of total principal photography days were filmed in Maryland.

Cost Review Procedures

1. Obtain from the Film Production Entity a schedule of TOTAL, final payroll costs for all employees (*individual or loan-out company*) connected with the film production activity for which they will be claiming eligible costs (*final full earnings report*) and a schedule of the qualified payroll costs which they claim eligibility for the payroll credit.
2. The CPA will test, on a sample basis, payments to individual talent, whether they were made to an individual OR to a loan-out company, and verify the agreement of: (1) the date the expense was incurred, (2) the individual or loan-out company paid; and, (3) the amount of the expense. The CPA will also inspect the invoice,

EXHIBIT A

Cost Review Procedures (continued)

timesheets or equivalent documentation for evidence of the expense being incurred in Maryland.

The criteria for determining the sample size for this procedure will be as follows:

- The CPA will select ALL individuals/loan outs/personal services companies whose total earnings were in excess of \$100,000.
 - The CPA will select a reasonable sample size of individuals whose total earnings range between \$1,000 and \$100,000. The sample size must be greater than _____% of all individual employees whose total earnings range between \$1,000 and \$100,000. **The Department will determine the percentage rate.**
 - Error rate of the sample will be applied to the population to determine a projected error (or disallowed amount).
3. Trace payroll costs for each employee to the final payroll register / earnings report and determine that Maryland withholding is made. Confirm that the withholding reports are filed with Maryland. Obtain an SSAE 16 report, if available, and verify controls were met. If in-house payroll is used, test to confirm correctly done.
 4. Confirm that the qualified aggregate payroll schedule excludes 100% of salary, wages or “other compensation” costs of employees receiving more than \$500,000 for personal services in connection with the Production. (*“Other compensation” includes employer fringes and payments made directly to the employee - i.e., per diem, housing allowance, travel allowance, meal allowance, car allowance, cell phone allowance, kit/box rental, relocation fees, etc.*) Identify and provide list of the employees/loan outs/personal services companies receiving more than \$500,000.
 5. The CPA will test, on a sample basis, expenses, other than payments to individual talent, from the list included in the Qualified Expenditure List and compare to the supporting invoices and verify agreement of: (1) the date the expense was incurred, (2) the vendor paid; and, (3) the amount of the expense. The CPA will also inspect the invoice or equivalent documentation for evidence of the expense being incurred in Maryland by the Film Production Entity.

The criteria for determining the sample size for this procedure will be as follows:

- The CPA will select all individual expenditures in excess of \$20,000.

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- The CPA will select a sampling of expenditures to any vendor which received an aggregate of \$100,000.00 or more. The sample size must be greater than _____%. **The Department will determine the percentage rate**
 - The CPA will select a reasonable amount of expenditures less than or equal to \$20,000, and not included in the prior criteria. The sample size must be greater than _____% of all non-payroll expenditures less than or equal to \$20,000. **The Department will determine the percentage rate.**
 - Error rate of the sample will be applied to the population to determine a projected error (or disallowed amount).
6. Through inspection of purchase orders, invoices and cancelled checks, determine whether the Maryland Production expenses were “clearly and demonstrably” incurred in Maryland by the Film Production Entity and meet the Maryland qualified expenditures definitions. If purchase orders, invoices and cancelled checks are not available, obtain other suitable documentation (such as contracts, letters, etc.) that support such expenses and meet the Maryland qualified expenditures definitions.
 7. Based upon the sampling required under item 5 above, confirm that qualified total direct cost claimed for materials or goods over \$1,000 are the initial cost of the material or good less its value, or resale, upon the completion of the Production in the State.
 8. If differences in excess of 5% of the population being tested (payroll, non-payroll expenses, etc.) are identified as a result of the above procedures, the accounting records of the Film Production Entity should be reviewed and corrected by the Film Production Entity. The above procedures should then be completed again on the revised accounting records. The revised accounting records should have a higher level of testing with specific emphasis on the parts of the records that were revised.
 9. The CPA will independently calculate Qualified Total Direct Costs based upon the Film Production Entity’s financial information and compare such calculation with the Qualified Total Direct Costs claimed by the Film Production Entity in its Application for Final Tax Credit Certification. The CPA will separately list any area of discrepancies.