

Cost Verification Report Guide and Agreed Upon Procedures

Minnesota Film Production Tax Credit Program

The State of Minnesota offers a tax credit of up to 25% to attract and expand film production in the state. A film production company (applicant) may receive an assignable Tax Credit Certificate for up to 25% of eligible production costs for a project that expends at least \$1,000,000.00 in a consecutive 12-month period for those eligible costs.

For a project to become eligible, an applicant applies to Explore Minnesota Film at least 30 but no more than 180 days prior to beginning principal photography to obtain a Credit Allocation Certificate. Upon completion of the project, the applicant commissions a Cost Verification Report to be prepared by an independent certified public accountant (CPA) licensed in the state of Minnesota; the CPA will verify the amount of eligible production costs related to the project. The applicant then provides the Cost Verification Report to Explore Minnesota Film and Explore Minnesota Film will determine the final credit amount and issue a Tax Credit Certificate for the taxable year in which the twelfth month of the consecutive 12-month period lands. The recipient of a Tax Credit Certificate may use it or assign the credit to another taxpayer.

The Cost Verification Report must be performed in accordance with the attestation standards established by the American Institute of Certified Public Accounts ([AT-C Section 205, Examination Engagements](#)).

Explore Minnesota Film must be listed as a specified party in the engagement letter and specifically granted access to any work performed by the CPA. Applicants must notify the Explore Minnesota Film incentives specialist if the Cost Verification Reports is not complete within 90 days with the reason for the delay.

The Examination Engagement subject matter and criteria are as follows:

1. Subject Matter:
 - a. A statement of eligible production costs directly related to this project; and
 - b. Final Production and Economic Impact Report
2. Criteria:
 - a. [Minnesota Statute 116U.27](#); and
 - b. [Minnesota Statutes 116U.26](#) (b)(1), and 116U.26 (b)(2); and
 - c. Qualification and Eligible Expenses criteria published on the Explore Minnesota Film website; and
 - d. Frequently asked questions (FAQs) published on the Explore Minnesota Film website; and
 - e. Minnesota Wage Theft Prevention Act

The applicant is responsible for all costs associated with the cost verification report. The applicant will submit the Cost Verification Report and Final Production and Economic Report to Explore Minnesota to MNfilmtaxcredit.emn@state.mn.us within 30 days of the cost verification report completion date. Questions regarding program or cost verification report requirements should be directed to jill.johansen@state.mn.us.

Agreed Upon Procedures

The independent CPA licensed in the state of Minnesota will perform the prescribed procedures. Any exceptions are to be listed as a finding in the CPA's report on applying agreed-upon procedures (AUP). The CPA must retain work papers related to performing the AUP for at least two years and Explore Minnesota Film, at its own discretion, shall have the right to review the CPA's work.

Eligibility:

1. Read the statute(s) and compliance requirements of the Minnesota Film Production Tax Credit Program
 - a. (<https://www.revisor.mn.gov/statutes/cite/116U.27> and <https://www.revisor.mn.gov/statutes/cite/116U.26>),
 - b. Current guidelines inclusive of Qualifications and Eligible Expenses, and
 - c. Frequently Asked Questions.
2. Obtain a copy of the Credit Allocation Certificate issued by Explore Minnesota Film from the Production Company. The Allocation Certificate will summarize the approved project including the allocated credit amount, scheduled start date, anticipated qualified Minnesota spend, and provisions that must be satisfied prior to issuance of the Tax Credit Certificate.
3. Obtain from the production company the following:
 - a. Detailed cost ledger of Minnesota Qualified Expenditures (MQE) (Excel workbook provided)
 - b. Payroll summary and detail reports
 - c. Final Production and Economic Impact Report (provided)
 - d. Copy of initial application for the Film Production Tax Credit Program (optional)
 - e. Final cast and crew list including: job title, department, first name, last name, address, phone number, email address, and state of residency
 - f. Vendor list including: company legal name, physical address, business phone number, business web site address, and name of primary contact including phone number and email address
 - g. Location list including: location name, location physical address, name of primary contact including phone number and email address, whether a permit was required or not, number of days at location, and distinction if a fee was paid including the amount of compensation. When a location fee is paid also obtain a copy of signed contracts (if available).
 - h. A schedule of all related party transactions for which the production company is including in the MQE including service agreement or contract, rate sheet or comparison bids and financial audit trail including unredacted bank statements.
 - i. Video proof that the approved Minnesota static or animated logo is displayed in the end credits. Television commercials are exempt from logo requirements.
 - j. From the detailed cost ledger of MQE, determine that the production company's minimum spend exceeded \$1 million dollars from the date of the Credit Allocation Certificate through the end of the consecutive 12-

month period or end of production, whichever is earliest. If the production company has not met this eligibility standard, there is no need to continue with the agreed upon procedures. Inform the production company management that the project is not eligible for the Film Production Tax Credit.

- k. Obtain the production reports, logs, and call sheets and validate that principal photography began no later than the date outlined in the Credit Allocation Certificate. If the production company filed for an extension, obtain a copy of the approved filing. Report the actual date principal photography began. If applicable, note the date an extension was approved.

Non-Payroll Expenditures:

1. Sort the detailed cost ledger by invoice/ledger posting dates. Inspect the descriptions in the ledger for invoice/ledger posting dates which appear before the date of the Credit Allocation Certificate. Deduct any errors from the MQE and remove them from the population to be sampled. Attach a list of any non-qualified costs found.
2. Select a sample of vendors pursuant to Appendix A, excluding purchasing cards and petty cash, and confirm they are a Minnesota qualified company. A Minnesota qualified company is defined as a permanent business that has a physical address and is located in Minnesota, conducts business in Minnesota, and files a Minnesota tax return. The company must be registered and in good standing with the Secretary of State of Minnesota. Deduct any errors from the MQE and remove them from the population to be sampled. Attach a list of any non-qualified costs found.
3. Select non-payroll expenditures (AP, purchasing card, petty cash, etc.) from the MQE transactions in the detailed cost ledger, as per Appendix A. For each MQE selected in the sample, perform the following by agreeing the information to the supporting documents such as invoices, signed contracts, etc.:
4. Inspect invoices, proof of payment (e.g., unredacted bank statements, check images, credit card statements and reimbursement checks, if applicable) or other equivalent documentation. Verify that expenditure amount is correct, date of invoice or receipt is correct, vendor is correct, and that the MQE was incurred and paid during the eligible period. Verify that all services incurred, goods purchased, and short-term leases are procured from a Minnesota qualified company.
5. Verify that the expenditure was not associated with activities specifically excluded by the statute and guidelines, including: non-itemized receipts, purchases of alcohol or tobacco, and other ineligible expenditures.
6. Verify that the expenditure was not for in-kind services.
7. Verify that the expenditure was recorded net of any refunds, insurance claims, credit notes received for discounts, rebates, invoicing errors, and purchase returns, as recorded in the MQE cost report.
8. Verify that the expenditure was recorded net of proceeds from any sale of the production assets.
9. Verify that the expenditure purchased or leased in Minnesota are pro-rated to reflect any usage out of the state.
10. Verify that the expenditure was not incurred or paid prior to the date on which the

project Credit Allocation Certificate was issued.

11. For exceptions noted in the expenditure test in Non-Payroll Expenditures procedure 3, for the sample identified in the Top Stratum of Appendix A, adjust the MQE for known errors noted during your testing.
12. For exceptions noted in the expenditures test in Non-Payroll Expenditures procedure 3, for the sample identified in the Stratum 1 and Stratum 2 in Appendix A, adjust the MQE for known errors noted during your testing and project the misstatement results of the sample to all items from which the sample was selected. For purposes of calculating the projected misstatement, divide the monetary amount of misstatement of the exceptions identified by the sample population total amount (rate of misstatement). Multiply this rate of misstatement to the total expenditure population from which the Stratum 1 and Stratum 2 sample was selected. Perform the following procedures based upon the results of the calculation of the projected misstatement:
13. If the projected misstatement does not exceed 2% of MQE for Non-payroll Expenditures, document the projected misstatement in the Report. Do not make any adjustment to the MQE for a projected misstatement.
14. If the projected misstatement exceeds 2% of MQE for Non-payroll Expenditures, select a second additional sample according to the sampling methodology noted in Appendix A for Stratum 1 and Stratum 2. Recalculate the projected misstatement for the second additional sample. If the projected misstatement for the second additional sample does not exceed 2%, document the projected misstatement in the Report. Do not make an adjustment to the MQE for a projected misstatement; however, do adjust the MQE for noted known errors. If the projected misstatement from the second sample selection exceeds 2% of MQE, adjust the MQE for the average of the two projected misstatements to the non-payroll population not sampled.
15. Attach a listing of any exceptions noted in the expenditure test Non-payroll Expenditures procedure 3. The listing should include amount, date, vendor, and nature of discrepancy.

Payroll Expenditures:

1. Inspect the detailed cost ledger, final cast and crew list, and payroll ledgers to determine that only one non-resident above the line (ATL) producer (one per episode if an episodic production) and one non-resident ATL director (one per episode if an episodic production), and non-resident ATL talent was included in the MQE and that amounts are capped per guidelines. Determine that non-resident BTL amounts are capped per guidelines. Deduct any errors from the MQE and remove them from the population to be sampled. Attach a list of any non-qualified costs found.
2. Sort the detailed cost ledger by invoice/ledger posting dates. Inspect the descriptions in the ledger for invoice/ledger posting dates which appear before the date of the Tax Credit Allocation Certificate. Deduct any errors from the Minnesota Qualified Labor (MQL) and remove them from the population to be sampled. Attach a list of any non-qualified costs found.
3. Using payroll summary report(s) perform the following:
 - a. Inspect payroll summary report(s) for all loan outs and confirm Minnesota registration and that any required Minnesota withholding taxes were remitted timely.

- b. If applicable, confirm that payroll handling fees are paid to a Minnesota qualified company.
 - c. Select payroll expenditures from the MQL transactions (total wages by employee) in the detailed cost ledger, as per Appendix A. For each MQL selected in the sample perform the following:
 - d. Compare the amount of the MQL in the detailed cost ledger for the individual or loan out with the payroll summary report. For any variances, determine if the cause is due to vacation pay, holiday pay, or equivalent reconciling items. Disqualify all salaries, wages, and fees included in the detailed cost ledger that are not included in the payroll summary report or any unknown variances.
4. Inspect payroll checks, check advices, and timecards, noting agreement of amounts, employee names, period dates, and confirm whether employee services were actually performed in MN per the timecards, daily call sheets, and records of employer withholding. Verify that wages or salaries were paid in agreement with the written notice required pursuant to the Minnesota Wage and Theft Prevention Act.
5. Confirm that the expenditure was not associated with activities specifically excluded by statute, program guidelines, or frequently asked questions.
6. Verify Minnesota residency status for each employee via a copy of a valid MN driver's license, ID card, voter registration card, I9 or equivalent document.
7. For amounts not paid through a payroll company, select a sample (total wages by individual) as per Appendix A, and obtain verification that amounts were paid for work performed in Minnesota by a Minnesota resident and withholding taxes were remitted timely. If applicable, verify the amounts were paid to a Minnesota qualified company.
8. For exceptions noted in the payroll test in Payroll Expenditure procedure 4, for the sample identified in the Top Stratum of Appendix A, adjust the MQL for known errors noted during your testing.
9. For exceptions noted in the payroll test in Payroll Expenditure procedure 4, for the sample identified in Stratum 1 in Appendix A, adjust the MQL for known errors noted during your testing and project the misstatement results of the sample to all items from which the sample was selected. For purposes of calculating the projected misstatement, divide the monetary amount of misstatement of the exceptions identified by the sample population total amount (rate of misstatement). Multiply this rate of misstatement to the total expenditure population from which the Stratum 1 sample was selected. Perform the following procedures based upon the results of the calculation of the projected misstatement:
10. If the projected misstatement does not exceed 2% of MQL, document the projected misstatement in the Report. Do not make adjustments to the MQL for the projected misstatement.
11. If the projected misstatement exceeds 2% of MQL, select a second additional sample according to the sampling methodology noted in Appendix A for Stratum 1. Recalculate the projected misstatement for the second additional sample. If the projected misstatement for the second additional sample does not exceed 2%, document the projected misstatement in the Report. Do not make adjustments to the MQL for a projected misstatement; however, do adjust the MQL for noted known errors in this second sample. If the projected misstatement from the second sample selection exceeds 2% of MQL, adjust the MQL for the average of the two projected misstatements to the population not sampled.
12. Attach a listing of any exceptions noted in the payroll test Payroll Expenditure

procedure 4. The listing should include amount, person or entity, and nature of discrepancy.

Related Parties & Other Affiliations:

1. Obtain from the production company a schedule of all related party transactions for which the production company is including in the MQE. Related party is defined as common management or common ownership (owns, controls, or holds the power to vote 20% or more of the outstanding securities of the business, individually or combined with family members including siblings, spouse, ancestors and lineal descendants) in or affiliation with the Company. The schedule should include the type of relationship between the related parties, the nature, and amount of the transactions. If no related party transactions, make note of this in report.
2. Obtain a signed letter from the production company attesting that the applicant has properly disclosed all related parties and related party transactions and that the schedules produced in accordance with Related Parties & Other Affiliations procedure 1 are complete and accurate. This statement may be included in a representation letter. If not included in the representation letter, attach letter as Exhibit H in the report.
3. Obtain a signed letter from a production company representative stating that the applicant has properly disclosed all source of funds, including financial sources and non-monetary transactions that were included.
4. From the schedule obtained in Related Parties & Other Affiliations procedure 1, select a sample of related party transactions for testing. Select all transactions greater than \$25,000. For transactions less than \$25,000 randomly select a minimum of 10 transactions or 25% by dollar value, whichever is greater for testing. Perform the following procedures for each related party transaction selection:
5. For non-payroll expenditures:
 - a. Inspect studio rate cards or comparison bids obtained by the production company to determine that related party transactions did not exceed the highest rate/bid. In addition, inspect pass-through vendor invoices to determine no markup was added. Any expenditures above the highest rate/bid and/or which were marked up when passed through the related party must be noted and explained on the related party transaction schedule, see Related Parties & Other Affiliations procedure 1.
 - b. Confirm that the expenditure is allowable as per Non-Payroll Expenditures procedure 3(a-g).
 - c. Confirm that expenditures do not include finance fees, interest, or payments of a similar nature paid to related parties and/or investors in the production. (i.e., entities or parties that reap increased financial rewards based on sales, exploitation of the product, or the success in lining up distribution agreements.)
6. For wages paid to related parties:
 - a. Confirm that the wage is allowable as per Payroll Expenditures procedures 3 and 4.
 - b. Compare rate of pay with applicable union rate or industry standard for position. If industry standard wages for type of position in relation to production type and budget levels are not explicit, contact Film Production Tax Credit

Program administrator.

- c. Attach a schedule of all related party transactions obtained in Related Parties & Other Affiliations procedure 1. Note and explain any sampled transactions that did not have comparison bids, were above the higher rate/bid, and/or were marked up when passed through the related party.

Wrap Up Procedures:

1. Obtain an attestation from the production company that any qualified expenditure(s) included in insurance claims have been credited from the MQE. If the production company filed an insurance claim and received funds, the CPA is to inspect the supporting documentation of the claim to ensure the expenditures were properly credited to the correct accounts in the MQE. Retain in cost verification report file.
2. Verify that the production company is in good standing with the Secretary of State in the state where the entity is organized or incorporated. Attach certificate of good standing as Exhibit F to the report; an unofficial web printout is acceptable.
3. Verify that the production company is in good standing with the Secretary of State in Minnesota. Attach certificate of good standing as Exhibit G to the report; an unofficial web printout is acceptable.
4. Verify that the approved Minnesota static or animated logo is displayed in the end credits. Approved logos are published under the More Information section of the Film Production Tax Credit Program webpage. Note its inclusion or absence in the report and include a color still shot as Exhibit I. Television commercials are exempt from logo requirements.
5. Based on findings from the procedures outlined herein, recalculate the MQE. The final credit amount is up to 25% of recalculated MQE up to the maximum allocation amount contained in the Tax Credit Allocation Certificate. Include the appropriate paragraph in the Final Results section of the report:
 - a. Recalculated MQE is greater than planned MQE:
 - i. As a result of applying the procedures outlined in the Cost Verification Report Guide and Agreed Upon Procedures published on [month day, year], the recalculated Minnesota Qualified Expense is \$[Dollar Value]. Therefore, the calculated tax credit would be \$[recalculated MQE * 0.25] which exceeds the approved amount of \$[Allocated amount from Tax Credit Allocation Certificate]. The project's qualifying period began on [month, year] and concluded on [month, year]; the applicant used [cash-basis accounting or accrual-basis accounting] during the qualifying period.
 - b. Recalculated MQE is less than planned MQE:
 - i. As a result of applying the procedures outlined in the Cost Verification Report Guide and Agreed Upon Procedures published on [Month day, year], the recalculated Minnesota Qualified Expense is \$[Dollar Value]. Therefore, the calculated tax credit is \$[recalculated MQE * 0.25]. The project's qualifying period began on [month, year] and concluded on [month, year]; the applicant used [cash-basis accounting or accrual-basis accounting] during the qualifying period.
 - c. Recalculated MQE is equal to the planned MQE:

- i. As a result of applying the procedures outlined in the Cost Verification Report Guide and Agreed Upon Procedures published on [Month day, year], the recalculated Minnesota Qualified Expense is \$[Dollar Value]. Therefore, the calculated tax credit is \$[recalculated MQE * 0.25]. The project's qualifying period began on [month, year] and concluded on [month, year]; the applicant used [cash-basis accounting or accrual-basis accounting] during the qualifying period.
6. Assist the production company with completing the Final Production and Economic Impact Report using adjusted values. The production company, not the CPA, is responsible to sign the Final Production and Economic Impact Report.
7. Attach a copy of the engagement letter to the report as Exhibit A.
8. Attach the detailed unadjusted cost ledger (e.g. Bible) of Minnesota Qualified Expenditures (MQE) to the report as Exhibit B.
9. Attach the final cast and crew list to the report as Exhibit C, include state of residence and distinguish between ATL and BTL personnel.
10. Attach the Vendor List to the report as Exhibit D
11. Attach the Location List to the report as Exhibit E.
12. Provide final report including all Exhibits to the production company. The production company is responsible to submit the report and Final Production and Economic Report to the FPTCP administrator.

Acknowledgements:

Agreed Upon Procedures were produced as a collaborative effort between the Minnesota Department of Employment and Economic Development, Explore Minnesota Film, and FORVIS.

FORV/S

Appendix A - Sampling Chart

Total Qualified Expenditures	Vendors	Top Stratum - Non Payroll – items \$25,000 and over	Stratum 1 - Non Payroll – items \$1,000 and \$24,999	Stratum 2 - Non Payroll – items \$999 and less	Top Stratum Payroll – top 10 total GL	Stratum 1 - Payroll – GL under the top 10	Extras and AP Payroll – Total Invoices
\$1,000,001 - \$5,000,000	All items \$2,500 and over	All items	75	25	All Items	25	All greater than \$2,500
\$5,000,001 - \$10,000,000	All items \$5,000 and over	All items	100	25	All Items	25	All greater than \$5,000
\$10,000,001+	All items \$7,500 and over	All items	150	25	All Items	25	All greater than \$7,500