Instructions

Purpose:

Louisiana Revised Statutes 47:6022, as revised in the 2009 Legislative session, concerns the Louisiana Digital Media Tax Credit Program ("Program"). In order to document actual qualifying program expenditures incurred by Program participants, the statute requires the Program participant to submit a "Cost Report of Production Expenditures" ("Cost Report"), including an analysis report prepared by an independent Louisiana Certified Public Accountant ("CPA"). The CPA's analysis is to comply with the "agreed upon procedures" established by the office of entertainment industry development in the Department of Economic Development ("Department"), and its Secretary. The analysis must also be conducted in accordance with Statements on Standards for Attestation Engagements ("SSAE") established by the American Institute of Certified Public Accountants ("AICPA"). When the CPA completes their analysis of the Cost Report, they are to prepare a report in the form of procedures and findings which must be submitted as part of the Cost Report to the Department for consideration of tax credit certification.

The required agreed upon procedures relate to engagement acceptance, reporting of the results of the analysis, and the underlying detail analysis of program participant expenditures. The following are minimum procedures that must be completed by the CPA as part of the required analysis; however, the CPA shall perform whatever additional procedures deemed necessary to ensure fair reporting of Program participant expenditures within the intent of the statues. References to AICPA Professional Standards, SSAE Numbers 10 and 11, or Auditing Standard, are presented by "AT" or "AU" section and paragraph numbers, respectively.

A. Conditions for Engagement Performance :

1. The CPA must ensure that conditions required for engagement acceptance have been satisfied. (AT 601.09 and AT 201).

2. The CPA must obtain appropriate representations from the responsible party and/or Program participants concerning compliance with requirements of Louisiana Revised Statues 47:6022 for determining and reporting qualifying Program expenditures. (AT 601.11 thru .15).

3. The CPA must ensure he or she has a sufficient understanding of the specified compliance requirements of Louisiana Revised Statues 47:6022. (AT 601.20).

4. No audit, agreed upon procedures report or prepared cost report submitted to OEID for a state-certified production or infrastructure project (motion picture, digital interactive media, sound recording or live performance) must be performed by a CPA who has performed (or whose CPA firm or an affiliate of the CPA or the CPA firm has performed) any other services relating to that production or infrastructure project (including all attest and non-attestation services, e.g. identification and quantification analysis, quantified benefits projection, application preparation).

B. Reporting Procedures :

1. The CPA must present a written report clearly presenting the procedures performed in the analysis, and their material findings in relation to the requirements of Louisiana Revised Statue 47:6022.

2. The CPA must include in his or her report a detailed explanation of any material discrepancy between the amounts presented as qualifying Program expenditures by the Program participant and the amounts deemed as qualifying by the CPA.

3. The CPA must include the following specific elements within his or her report (AT 601.24):
   a) A title that includes the word "independent"
   b) Identification of the Program name and participants
   c) Identification of the subject matter of the engagement, including the period or point in time addressed, and reference to the character of the engagement.
   d) An identification of the responsible party
   e) A statement that the subject matter is the responsibility of the responsible party
   f) A statement that the procedures, which are required by the Department, were performed to assist the specified parties in evaluating the Program participant's compliance with requirements of Louisiana Revised Statue 47:6022
   g) A statement that the agreed upon procedures engagement was conducted in accordance with attestation standards established by the AICPA
   h) A statement that the sufficiency of the procedures is solely the responsibility of the Department, and a disclaimer of responsibility for the sufficiency of those procedures
   i) A list of the procedures performed (or reference thereto) and related findings. The CPA shall not provide negative assurance (AT 201.24)
   j) Where applicable, a description of any agreed upon materiality limits
   k) A statement that the CPA was not engaged to and did not conduct an "examination" of the Program participant's compliance with the specified requirements, a disclaimer of opinion thereon, and a statement that if the CPA had performed additional procedures, other matters might have come to his or her attention that would have been reported
   l) A statement restricting the use of the report to the specified parties
   m) Where applicable, reservation or restrictions concerning procedures or findings as discussed in AT 201.33, .35, .39, and .40
   n) Where applicable, a description of the nature of the assistance provided by the specialist as discussed in AT 201. 19 thru 21
   o) The manual or printed signature of the CPA firm, and individual firm principal responsible for the engagement
   p) The date of the report

4. The Cost Report must present a "Statement of Qualifying Program Expenditures" with sufficient detail to allow an uninformed reader to understand the individual types of expenditures presented and the appropriate amounts determined to be qualifying during the reporting period **(See Attachment 2 for format).**

5. The Cost Report must contain sufficient footnotes to explain all material transactions and operating policies and procedures impacting the determination of qualifying expenditures as presented on the "Statement". At a minimum, the footnotes must include:
   a) Responsible Party or Parties – The specific legal entity or entities actually incurring the reported qualifying expenditures must be identified, and confirmed as the appropriate Program participant(s).

b) Accounting Policies and Procedures - Complete disclosure of the Program participant's accounting policies and procedures for identifying, segregating, and reporting qualifying Program expenditures within their accounting books and records. Where qualifying expenditures are based on cost allocations, the procedures and material assumptions used to make those cost allocations must be explained.
c) Design and Development Period - The criteria used by the Program participant to determine when a project completes its design and development phase and begins its commercial operations phase must be described.
d) Qualifying Program Expenditures – The statues and associated rules have established specific criteria in determining qualifying Program production expenditures expended in Louisiana during the reporting period. The Responsible Party's and/or Program participant's understanding of those criteria must be summarized to clearly establish their understanding of qualifying expenditures.
e) Source of funds - All sources of funds that were used to finance the production must be disclosed, including any non-monetary transactions that were included in the cost of the production. Non-monetary transactions must be disclosed at fair market value. The nature of the services provided and the consideration given in exchange for the services must be disclosed. If there were no non-cash transactions, the cost report must include a note to that effect **(See Attachment 3)**.
f) Fringe Benefits – Complete disclosure of fringe benefits included in payroll expenditures and procedures and assumptions used to include the expenditures must be explained.
g) Related Parties – The CPA must specifically address the existence of any related party transactions presented as qualifying expenditures. If none exist, that must be stated clearly. If related party transactions exist, the CPA must ensure that the Program participant has provide sufficient detail information to meet the related party reporting requirements established by the AICPA (AU 334) .
h) Non-Louisiana costs – The CPA must provide a breakdown of all non-Louisiana costs and must include the budget item and the amount of the transaction. If there are no non-Louisiana costs, the cost report must include a note to that effect.
i) Accounts payable, accrued charges and deferrals – The CPA must present amount of accounts payable, accrued charges and deferrals as of the ending date of the cost report. If there are no accounts payable, accrued charges or deferrals, the cost report must include a note to that effect.

C. Analysis Procedures :

1. The CPA must document in detail the specific accounting policies and procedures established by the Program participant to identify, segment, and report qualifying production related expenditures in Louisiana, as those terms are defined within the statue and rules. The documentation must include the specific Program participant personnel responsible for performing, supervising, and monitoring these policies and procedures.

2. The CPA must design and implement detail analysis procedures to ensure that all reported qualifying Louisiana production expenditures :
   a) Relate to the design or development of "Digital Interactive Media", including costs for payroll and component parts as those terms are defined within the Program statues and rules.

b) Were “expended in Louisiana” as that term is defined within the Program statues and rules.
c) Are “Production expenses” as that term is defined within the Program statues and rules.
d) Are for projects still in the design and development phase of their product life cycle.
e) Only includes cash or cash equivalent transactions.

3. The CPA must design and implement detail analysis procedures related to reported qualifying Louisiana production labor expenses to ensure that :
   a) “At will” employees or contract workers paid actually exist, and are “Louisiana residents” as defined by the statute and rules;
   b) Pay rates used to compute labor expenditures comply with established “at will” employee pay rates for the appropriate class of employee, or agree to contracted rates for contract labor personnel;
   c) Labor hours used to compute labor expenditures are based on actual hours worked on project design or development as reported in the established labor reporting system of the Program participant, or other record keeping systems established for contact labor personnel, as appropriate;
   d) Detail testing of these labor reporting systems is conducted to satisfy the CPA that the data presented by these systems, and incorporated within the general books and records of the Program participant, is fairly presented and reliable.
   e) Labor “burden” amounts for payroll taxes and other fringe benefits are agreed to appropriate established rates by the Program participant, and that they only include direct payroll charges, and exclude contingent items, and general business unit or corporate overhead cost items.
   f) Job titles and descriptions are accurate and match corporate HR records.
   g) Pro-rated C-level executive salaries are only included when applicant has demonstrated that services performed in Louisiana are directly related to the development of the state certified production and do not involve any activities excluded in RS 47:6022 or program rules.
   h) Labor amounts presented as qualifying expenditures do not duplicate any other LED incentive programs.

4. The CPA must design and implement detail analysis procedures related to reported qualifying Louisiana production materials and supplies expenses to ensure that :
   a) Items purchased and associated amounts presented as qualifying expenditures are directly related to project design or development;
   b) Amounts presented as qualifying expenditures agree to the terms and conditions of their purchase order or other purchase contractual document;
   c) Amounts presented as qualifying expenditures agree to the underlying books and records of the Program participant for the reporting period;
   d) Detail testing of these underlying books and records is conducted to satisfy the CPA that the data presented by these systems is fairly presented and reliable.
   e) Amounts presented as qualifying expenditures do not duplicate any other LED incentive programs.

5. The CPA must design and implement detail analysis procedures related to reported qualifying Louisiana production expenditures for component parts to ensure that :
   a) Items purchased and associated amounts presented as qualifying expenditures are directly related to project design or development;

b) Items purchased and associated amounts presented as qualifying expenditures are for “component parts” as defined by the statue and rules;
c) Amounts presented as qualifying expenditures agree to the terms and conditions of their purchase order or other contractual document;
d) Expenditures presented as Sub-contracted software or computer code development only includes development work performed physically in the state of Louisiana and in compliance with the qualifying dates listed in the initial certification letter and do not involve any activities excluded in RS 47:6022 or program rules;
e) Amounts presented as qualifying expenditures agree to the underlying books and records of the Program participant for the reporting period;
f) Detail testing of these underlying books and records is conducted to satisfy the CPA that the data presented by these systems is fairly presented and reliable.
g) Rental expenditures only include allocated space dedicated to development and do not include residential space or general overhead of the underlying business including but not limited to Internet, telephone, utilities, furniture and parking.

6. The CPA must design and implement detail analysis procedures related to reported qualifying Louisiana production expenditures to ensure they do not include business unit or corporate indirect costs, general and administrative expenses; amounts subsequently reimbursed by the state or any other governmental entity; costs related to the transfer of tax credits; amounts paid to a person or entities as a result of their participation in profits of the Program participants; the Program application fee; or state or local taxes.

7. The CPA must design and implement detail analysis procedures related to reported qualifying Louisiana production expenditures to ensure that all material “related party transactions” have been identified, and have been subjected to appropriate additional analysis as required by the AICPA (AU 334) to ensure that their reported values are equivalent to “arms length” transactions, and appropriate footnote disclosures related to these