

**WRITTEN TESTIMONY OF KOSTIN, RUFFKESS & COMPANY, LLC  
BEFORE THE COMMERCE COMMITTEE**

**FEBRUARY 10, 2009, RE: RAISED BILL 5919  
AAC THE PROCESS FOR APPLYING FOR FILM TAX CREDITS**

Mr. Chairman,

Kostin, Ruffkess & Company, LLC is a large regional Certified Public Accounting firm. We have many clients in the media entertainment business. We have been involved with Connecticut's film credit program since its inception. We have consulted the state on credit programs and we also perform film production audits and consulting in a number of jurisdictions including: Connecticut, Massachusetts, Rhode Island, Michigan and Georgia. We also issue reports on the validity and amounts of potential credits to credit purchasers and lenders.

The film industry is a unique business sector. Film production companies run the gamut from very sophisticated publicly traded companies to new entrepreneurs. It is difficult to generalize the type of project and the level of acumen each project organizer possesses. One thing, however, is uniform - state incentive programs either require an independent audit or the state performs the audit itself. Independent 3<sup>rd</sup> party audits serve the states as a necessary safeguard to protect their interests.

Over 40 states have some type of credit program and to our knowledge only one exempts small projects. We think this is telling evidence of the need for such an audit. The oldest and perhaps most famous state incentive program is Louisiana's. It developed its program in 2002. However, allegations of mismanagement and illegal activities in their program necessitated change. One of their responses to the alleged improprieties was to strengthen (not reduce) the requirements for independent 3<sup>rd</sup> party audits.

A 3<sup>rd</sup> party audit provides in-depth information to the state and helps ensure that a project conforms to the Connecticut General Statutes and Agency Regulations. Among other things, the audit looks to whether production costs are actually spent and whether those expenses were incurred in our state; it limits costs to a specific time frame for a project; it helps identify related parties; and it filters out costs that are not permitted under the program. It also provides information about non-resident loan out companies involved in productions. In short, a 3<sup>rd</sup> party audit provides valuable information to the state and helps determine that applicants have complied with the credit statutes and regulations.

Admittedly, a film production audit does create cost for a production company. However, audit costs qualify as eligible production expenditures. Therefore, the costs are minimized by the credit. Exempting a small budget film from the audit process will not necessarily relieve them of the cost of an audit. In the absence of a 3<sup>rd</sup> party audit, most buyers or lenders demand an independent audit of a production budget. Thus, an exemption for small projects is probably irrelevant.

We strongly believe Connecticut should look to other state's experience with these programs and augment -not erode - the audit requirement. An independent 3<sup>rd</sup> party audit helps ensure compliance with the credit program with no cost to the state. Independent 3<sup>rd</sup> party auditors act as stewards for the state. Audits are a quality low cost method of providing independent verification of important qualifications of the credit program. Exempting any project from overview will only create risk and administrative burden and not save the applicant time or costs since most buyers or lenders require 3<sup>rd</sup> party audit assurance.

**By: Kostin, Ruffkess & Company, LLC**