

2005 Cable Franchise Fee Audit

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**Internal Audit Division
Office of the City Manager
City of Cincinnati**

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I. Executive Summary

The City of Cincinnati and Time Warner signed a 15-year cable franchise agreement in 1996. In exchange for using the public right-of-ways for its cable system, Time Warner pays the City 5% of the gross revenue generated by cable service. Time Warner also pays the City \$0.96 per subscriber each month to fund public access programming. This audit reviewed franchise fees paid to the City of Cincinnati by Time Warner Cable in accordance with the cable franchise agreement. The audit had two main objectives:

- to determine that City controls were adequate to account for franchise fees and
- to ensure that Time Warner accurately reported its gross revenue and paid the correct fees to the City.

The first four audit findings identify money owed by Time Warner to the City under the terms of the franchise agreement. Time Warner does not include revenue from “franchise fees” itemized on subscriber bills into its gross revenue reported to the City. According to a 1997 court ruling, these fees should be included in gross revenues and are subject to the franchise fee. The exclusion of this money from gross revenue between 1998 and 2005 resulted in an underpayment to the City of \$845,582.04. The cable agreement also specifies that any underpayment of the franchise fee is subject to 12% annual interest, resulting in another \$329,167.41 due. The audit found Time Warner owes the City \$30,124.53 for interest due on national ad sale revenue that was not reported in a timely manner. The audit also identified subscribers incorrectly excluded from the City’s subscriber count, resulting in an underreporting of public access fees of \$10,642.56. The audit recommends that Cable Office work with the Solicitor’s Office to recover all of these funds.

In addition to findings about underpayment, the audit makes several recommendations to improve administration of the cable franchise agreement. The audit tested the jurisdictional coding in Time Warner’s billing database to ensure Cincinnati subscribers are being properly attributed to the City. Finding 5 details the relatively small number of errors found, particularly in the 45227 and 45238 zip codes, and recommends that the Cable Office work with Time Warner to correct those problems. Recommendation 6 suggests that the Cable Office strengthen monitoring of the franchise agreement by conducting routine audits and trend analysis on quarterly gross revenue reports. Finding 7 provides suggestions for strengthening future cable franchise agreements.

II. Introduction

Background

The City of Cincinnati has a fifteen-year, non-exclusive franchise agreement with Time Warner Cable, allowing Time Warner to provide cable service to the citizens of the City. This agreement was signed in 1996 and will continue through mid-2011. In exchange for using the public right-of-ways for its cable system, Time Warner pays the City 5% of its gross revenue from the cable service. The agreement defines gross revenue as “all revenue earned directly or indirectly by the Company from or in connection with the operation of a Cable Television System...gross revenues shall include, but not be limited to, subscriber service monthly fees, pay service fees, installation and reconnection fees, leased access fees, converter rentals, late fees, and advertising payments.” Payments on gross revenue are called “franchise fees” and these fees generated payments to the City of over \$2.3 million in 2002 and 2003 and over \$2.5 million in 2004. Exact figures are presented in the table below.

In addition to franchise fees, the agreement requires Time Warner to pay the City \$0.96 per Cincinnati subscriber each month as long as there are more than 54,500 subscribers. This “public access” fee must be used to support public and educational programs and is paid in lieu of Time Warner providing facilities for such programming. From 2002-2004, the City averaged more than 65,000 subscribers per month, generating public access payments of over \$750,000 annually. This money is used by the nonprofit organization Media Bridges to provide public access training and programming to Cincinnati residents.

Franchise Fees, Public Access Fees, and City Subscribers (2002-2004)

| | 2002 | 2003 | 2004 |
|--|-------------|-------------|-------------|
| Franchise Fees (5% of gross revenue) | \$2,342,684 | \$2,384,748 | \$2,558,178 |
| Public Access Support (\$0.96 per subscriber) | \$753,388 | \$766,108 | \$751,617 |
| Average monthly subscriber base | 65,398 | 66,502 | 65,245 |

Time Warner reports and pays both franchise and access fees to the City on a quarterly basis. The cable franchise agreement is administered by the Office of Cable Communications (Cable Office), which is part of the City Manager’s Office. The Federal Communications Commission has certified the City of Cincinnati as a local franchising authority (LFA). As such, the City is responsible for regulating basic cable rates in the franchise area. The Cable Office monitors Time Warner’s compliance with the financial, technical, and customer service terms of the franchise agreement. It also produces programming shown on CitiCable and monitors the performance of Media Bridges, the city’s public access facility.

Audit Scope and Methodology

This was a routine audit conducted as part of the 2005-2006 work plan. The audit had two main objectives. The first was to determine whether the City has adequate controls in place to account for revenue from the cable agreement. The second was to ensure that Time Warner had

accurately reported its gross revenue and paid the correct franchise and public access fees. The audit was also designed to confirm Time Warner's compliance with other financial terms of the franchise agreement such as insurance and surety requirements. It did not review compliance with the technical or customer service requirements of the agreement.

The initial scope of the audit planned to examine the years 2002-2004 because the terms of the contract require Time Warner to maintain records that can be audited for at least three calendar years. For selected issues, the auditor expanded the scope to look at fees paid since 1997. The auditor began by reviewing the agreement between the City and Time Warner. The auditor interviewed relevant City and Time Warner staff to understand how gross revenue and franchise fees are calculated and reported to the City. She also spoke with cable administrators in Ann Arbor, Dayton, and Indianapolis to learn about the issues they identified during audits of their cable operators.

To test the reports submitted by Time Warner, the auditor recalculated all of the fees reported to confirm the calculations were correct. She traced information previously submitted by Time Warner to the City back to Time Warner's billing system to confirm the accuracy of those reports. She reviewed the source documentation for January 2003 revenue to ensure that those documents supported the gross revenue amounts reported by Time Warner to the City. She also reviewed the components of subscriber counts in Time Warner's billing system for each month of 2003 to reconcile them to subscriber figures reported to the City. Finally, the auditor tested jurisdictional coding in Time Warner's billing database to ensure fees paid were based on correct geographical areas and that City subscribers are correctly attributed to the City.

This audit did not include a review of Time Warner revenue generated by high speed internet access (Road Runner) or digital telephone service. Time Warner stopped including Road Runner revenue in its franchise fee calculations in mid-2002 when the FCC ruled that internet service is an "information service" not subject to the cable franchise fee. This question is still being reviewed in the courts but thus far they have agreed with the FCC in excluding this revenue from the franchise fee.

IAD conducted fieldwork for the audit from April to June 2005. The audit was conducted in accordance with generally accepted government auditing standards (GAGAS). We would like to thank staff in the Office of Cable Communications, the City Manager's Office, CAGIS, the City Solicitor's Office, the Income Tax Division, RCC, and Time Warner Cable—Cincinnati Division for their assistance with the audit.

III. Findings and Recommendations

This report has seven main findings. Findings 1-4 identify money owed by Time Warner to the City under the terms of the franchise agreement. Finding 5 details the results of tests on the jurisdictional coding in Time Warner's billing database, where relatively minor errors were found. Findings 6 and 7 suggest ways to improve current monitoring of cable franchise fees and strengthen future cable franchise agreements.

Finding 1. "Franchise fees" are being improperly excluded from Time Warner's gross revenue and the City is owed fees incorrectly excluded in the past.

The franchise agreements between the City and Time Warner requires the operator to pay the City a 5% franchise fee on all gross revenue. In the mid-90s, many cable operators and municipalities disagreed as to whether the "franchise fee" itemized on subscriber bills should itself be excluded from the gross revenue calculation. On July 31, 1997, the U.S. Court of Appeals for the Fifth Circuit ruled in the "Dallas decision" that gross revenue means all subscriber payments, including the money collected as franchise fees. The court found that "Franchise fees are not a tax, however, but essentially a form of rent: the price paid to rent use of public right-of-ways." It states that "there can be no doubt that franchise fees imposed on the cable operator are part of a cable operator's expense of doing business." It concludes that, "all money collected from subscribers, including funds used to pay franchise fees, must be included in a cable operator's gross revenue."¹

Time Warner has not been including franchise fees paid in their gross revenue totals as required by the ruling. On October 30, 1997, Time Warner sent a letter to City Manager Shirey alerting him to the ruling and requesting written notification that franchise fees should be included in gross revenue calculations. In the course of the audit, we were unable to identify any response from the City to Time Warner regarding this matter. Time Warner's request in the letter does not fundamentally alter the ruling by the court that "franchise fees" are a component of gross revenue and, therefore, are themselves subject to the franchise fee. Time Warner should have begun reporting and paying franchise fees based on the determination of the court.

By excluding money collected as "franchise fees" from gross revenue, Time Warner underreported its gross revenue and the fees due on it. If gross revenue had been calculated in accordance with the Dallas decision, the City would have received more than \$100,000 additional franchise fees each year. Table 1 in the appendix presents the reported revenue, the actual gross revenue including the fee, the 5% fee paid on reported gross revenue amount, the 5% fee due on the actual total gross amount, and the additional amount due for each year. Between the first quarter of 1998 through the second quarter of 2005, the City should have been paid an additional \$845,582.04 in franchise fees.

In its October 1997 letter to City Manager Shirey, Time Warner stated that calculating gross revenue in accordance with the court ruling would raise customer bills by an equivalent amount. Similarly, in cities where the cable provider has had to pay franchise fees on improperly excluded revenue, the cable providers have sometimes chosen to add and itemize this charge on

¹ U.S. Court of Appeals, Fifth Circuit, No. 96-60427, City of Dallas, Texas; City of Laredo, Texas v. Federal Communications Commission. July 31, 1997.

customer bills. Regardless of whether Time Warner chooses to absorb this cost or recoup it from subscribers, the agreement requires the franchise fee to be paid on “gross revenue.” Court rulings have clarified that “gross revenue” includes revenue itemized on bills as franchise fees. The franchise fee subscribers pay would remain at 5%, as required by federal law, but the revenue subject to the 5% fee would be larger. Thus, the Cable Office might anticipate that Time Warner could choose to increase customer bills by the corrected franchise fee amount, just as it might when other of its operational costs rise.

Recommendation 1. The Office of Cable Communications should inform Time Warner that “franchise fees” must be included in total gross revenue. The Office should work with the City Solicitor’s Office to collect past due franchise fees.

Department Response 1. The Office of Cable Communications will work with the City Solicitor’s Office to appropriately notify Time Warner Cable of what must be included in total gross revenue and to collect past due franchise fees. After this process is complete, a timetable for implementation can be established. The Cable Administrator will be responsible for seeing that implementation is carried out.

Finding 2. The City is owed interest payments for unpaid franchise fees.

As described above, Time Warner has not been including “franchise fees” in its gross revenue calculations. As a result, it has significantly underpaid its franchise fee for several years. Section 7.d. of the cable agreement specifies that “In the event that any franchise agreement payment, recomputed amount, cost, or penalty is not made on or before the applicable dates heretofore specified, interest shall be charged daily from such date at the annual rate of twelve percent (12%).” Section 7.b. states that payments “shall be made to the City not later than forty-five days after the expiration of the quarter when due.” This interest provision creates an incentive for the franchise holder to report revenue accurately and compensates the City for the use of public funds by a private entity. Table 2 in the appendix computes the interest on the unpaid fees from 1998 to the present. Total interest due on the unpaid fees as of June 30, 2005, is \$329,167.41.

Recommendation 2. The Office of Cable Communications should work with the City Solicitor’s Office to collect the interest on past due franchise fees.

Department Response 2. The Office of Cable Communications will work with the Solicitor’s Office to collect the interest on past due franchise fees. The Cable Administrator will be responsible for seeing that implementation is carried out.

Finding 3. The City is owed interest on advertising revenue that was not reported in a timely manner.

In the fourth quarter of 2004, Time Warner reported national advertising revenue from 2000-2004 that it had failed to report when the revenue was earned. Advertisers purchase national advertisements to reach subscribers in local markets. Therefore, this revenue is subject to the local franchise fee. Time Warner is responsible for allocating the revenue for national advertising among all of the municipalities that make up its subscriber base. For example, if Time Warner had \$500,000 in national advertising revenue for a quarter and Greater Cincinnati

constitutes 10% of its national subscriber base, \$50,000 of that \$500,000 is attributed to Greater Cincinnati. Then, the local office determines what percentage of Greater Cincinnati subscribers live in the City of Cincinnati. If 20% of Greater Cincinnati subscribers live in the City, \$10,000 for national advertising is included in the gross revenue reported to the City. Time Warner then pays Cincinnati \$500 (5% of \$10,000) for national ad sales revenue. Payment for national advertising revenue was being calculated this way before 2000 and is currently done this way but Time Warner failed to report this revenue to local municipalities for the years in between. According to Time Warner staff, Time Warner's corporate headquarters changed the accounting policy for reporting national advertising revenue at the time of the AOL-Time Warner merger in 2000. Time Warner corrected this error in the fourth quarter of 2004 and included national advertising revenue on that gross revenue report to the City. As discussed above in Findings 2, though, the franchise agreement requires that fees not paid when due are subject to 12% annual interest calculated on a daily basis. Table 3 in the appendix presents the interest calculations. Interest due on national advertising revenue for 2000–2004 equals \$30,124.53.

Recommendation 3. The Office of Cable Communications should work with the City Solicitor's Office to collect the interest on past due national advertising revenue.

Department Response 3. The Office of Cable Communications will work with the City Solicitors Office to collect the interest on past due national advertising revenue. The Cable Administrator will take responsibility for seeing that implementation is carried out.

Finding 4. The City is owed public access fees on subscribers incorrectly excluded from subscriber counts, although Time Warner has recently paid for some of the excluded subscribers.

Section 3.h.1 of the Franchise Agreement states that "the Company promises to pay to the City a 'Public Access Payment' of \$0.96 per month per Cincinnati subscriber." Time Warner provides a monthly count and payment for these City subscribers when it reports and pays quarterly franchise fees. The subscriber count includes residential subscribers, commercial subscribers such as hotels, and bulk subscribers such as apartment complexes.

The audit found that Time Warner's subscriber counts omitted two categories of subscribers that should be included. Time Warner counts the number of Cincinnati subscribers by identifying all of the codes in the billing system that represent a unique subscriber. For example, one residential subscriber might have three billing codes representing basic service, expanded service, and premium channels. When determining the number of subscribers, Time Warner counts only the basic service code since every subscriber with expanded service and premium channels must also have basic service. During the course of the audit, Time Warner identified one code with a small number of subscribers that was not being included in City subscriber counts. Between 2001 and the first quarter of 2005, a total of 4,606 subscribers were not reported to the City. The public access fee due for these subscribers is \$4,421.76. Time Warner sent the City a check for this amount on June 23, 2005 and said that these subscribers will be included in future reports.

Time Warner also excludes its own employees receiving free service from the City subscriber count. Cable Office staff believes Time Warner employees should be included in the subscriber count because they are City residents receiving cable. They have the same right to use the services paid for by the public access fee as any other City resident. The auditor reviewed three months of 2003 and found over 180 City residents receiving free cable service. Assuming 180 subscribers per month for the entire 2002-2004 period, the public access fees due for these subscribers would be \$6,220.80.

Recommendation 4. The Office of Cable Communications should inform Time Warner that employee subscribers must be included in City subscriber counts.

Department Response 4. The Office of Cable Communications will inform Time Warner the employee subscribers must be included in City subscriber counts. The Cable Administrator will take responsibility for seeing that implementation is carried out.

Finding 5. There are limited errors in Time Warner's jurisdictional coding of street addresses. Time Warner's billing database was reviewed to ensure that City of Cincinnati addresses are coded correctly. This served to confirm that revenue generated by City subscribers is correctly attributed to the City. The audit tested 400 addresses on more than 50 streets in 24 neighborhoods. The vast majority of addresses were selected because they border other municipalities and are potentially problematic. Thus, the error rate in the test sample is believed to be considerably higher than in the City at large. A limited number of streets in nine other municipalities that border Cincinnati were also checked.

Of the 400 addresses tested, two addresses in other municipalities (0.5%) were incorrectly attributed to the City. Nine Cincinnati addresses (2.25%) were incorrectly attributed to other municipalities, meaning that franchise and public access fees from these addresses should be but are not remitted to the City. Four of these incorrectly coded addresses were in the 45227 zip code (Madisonville addresses attributed to Columbia Township). Two were in the 45238 zip code (West Price Hill attributed to Green Township). There was one incorrect address in each of the 45209, 45212, and 45224 codes. These three addresses were on very long streets that cut through several jurisdictions (Montgomery, Ridge, and North Bend Roads) and the boundary addresses were wrong although other addresses on these streets were correct.

In addition to the above errors, 18 City addresses could not be found in the database (4.5%). All but three of these addresses are on the west side of Cincinnati. Eleven are in the 45238 zip code. Two unfound addresses are in 45211 (Westwood) and one each in 45202, 45204, 45213, 45220, and 45224. It is unclear why these seven addresses could not be located. In the case of the eleven missing 45238 addresses, nearly all border Delhi Township. Delhi Township is currently served by Adelphia and not Time Warner. Delhi addresses could not be found in Time Warner's database since the company does not service the area. It seems that the City addresses bordering Delhi may have been incorrectly attributed to Delhi and, thus, are currently serviced by Adelphia. Time Warner and Comcast are currently in the process of acquiring Adelphia and it is expected that Time Warner Cable will begin serving Delhi when the acquisition is complete.

Recommendation 5. The Office of Cable Communications should work with Time Warner to improve the jurisdictional coding in Time Warner’s billing database in the 45227 and 45238 zip codes. It should also correct the specific errors identified by the audit testing. Finally, when the Time Warner-Adelphia merger is complete, the Cable Office should confirm that City addresses formerly in the Adelphia service area are properly attributed to the City.

Department Response 5. The Office of Cable Communications Cable Administrator will work with Time Warner’s Vice President of Public Affairs to implement the above mentioned recommendations. The timing of the above mentioned merger affects the completion of this entire jurisdictional coding issue.

Finding 6. The Office of Cable Communications can improve monitoring of cable the cable franchise agreement and fees.

The Cable Office receives the quarterly reports from Time Warner about the sources of franchise fee revenue and should monitor these reports to ensure the City receives the correct revenue. This audit was the first audit ever conducted by the City of cable franchise fees. Cable administrators in other cities strongly endorsed the need for routine audits as a matter of due diligence and to provide incentives for the cable operator to report revenue accurately. Most advocate franchise fee audits every three to five years as well as before the franchise agreement renewal.

In the interim between audits, the Office of Cable Communications itself should monitor revenue reports. The department does have a spreadsheet that track the various reported revenue streams (e.g. basic cable, equipment rental, pay per view, advertising) that could be used to identify significant or unusual changes.

The Cable Office does not currently have proof on file that Time Warner is complying with several conditions of the franchise agreement. The agreement requires Time Warner to have an insurance policy naming the City as a coinsured and a \$500,000 surety bond in favor of the City. The surety bond should be on file with the City Treasurer’s office but the copy on file was not valid. The audit found that Time Warner does have the required insurance and surety but the Cable Office did not have updated copies of these records.

Section 12.c of the cable agreement requires Time Warner to submit an annual gross revenue report certified by the CEO of the Cincinnati Division. This report should also include information about the number of City subscribers, homes passed, miles of plant, tiers offered, and construction plans. The Cable Office also did not have such reports. The quarterly fee reports being submitted were verified by the “Vice President—Finance & Controller.” An annual report verified by the CEO would provide additional assurance as to the accuracy of the revenue information.

Recommendation 6. The Office of Cable Communications should improve its monitoring of cable franchise revenue by planning routine revenue audits every three to five years. It should conduct analysis on quarterly reports by reviewing revenue components to determine if the reported information is consistent with historical trends. It should work with Time Warner’s

accounting staff to understand the reason for changes if anomalies are identified. The Cable Office should also ensure that Time Warner complies with the terms of the agreement by submitting annually updated insurance, surety bond, and financial information certified by the Cincinnati CEO.

Department Response 6. The Office of Cable Communications will implement these recommendations immediately.

Finding 7. There are several opportunities to strengthen the cable franchise agreement when it is renegotiated in 2011.

In reviewing the cable franchise agreement, the audit compared the current cable franchise agreement to best practices. The contract has several strengths including a broad definition of gross revenue, a right to audit clause, and an interest penalty for late payments. However, there are also areas that could be strengthened when the current agreement is renegotiated in 2011.

First, some cities require binding arbitration when disputes arise over fee payment or amounts due and all good faith efforts to resolve the conflict have been exhausted. Binding arbitration would provide a means for resolution of conflicts over fees without the need for costly litigation that could negate the value of seeking those fees.

Second, some cities require the cable operator to pay for the cost of the audit if the audit identifies a significant underpayment. For example, Vancouver requires the franchise operator to pay for the audit if the audit finds underpayments of 4% or more of total reported revenue. As with the penalty clause for underpayment, this clause provides incentive for the cable operator to report total gross revenue accurately and fully.

Third, several cities require cable operators to assign a fair market value and report free service as revenue. These clauses do not require payment for free services required by the cable agreement (for example, to municipal buildings or schools). They do, however, require payment for free service provided to employees of the cable company or apartment building managers who receive free service in exchange for offering cable in their buildings. In such cases, municipalities hold that free service is “foregone revenue” that the cable company chooses not to receive in exchange for another benefit. Since the recipients of the free service normally would be paying for it and contributing to gross revenue, the company should report the value of the service given away in gross revenue totals.

Fourth, the term “subscriber” should be included in the “Definitions” section of the contract. “Subscriber” is not defined in the current contract but doing so would clarify who is subject to franchise and public access fees, particularly in the case of commercial, bulk, and complementary subscribers.

Finally, the cable industry and communications technology are changing rapidly. Since the 1996 agreement was signed, cable companies have begun providing internet broadband and telephone service. Telephone companies now offer broadband and electric utilities now provide cable. In such a quickly developing field, a 15-year franchise agreement often does not anticipate or

address the rapid technological changes. Thus, several experts recommend that cable franchise agreements optimally should be no longer than ten years.

Recommendation 7. The Office of Cable Communications should consider the above changes to the cable franchise agreement when it is renegotiated in 2011.

Department Response 7. The Office of Cable Communications will consider all of the above changes to the cable franchise agreement when it is renegotiated in 2011 and ensure that these are shared with appropriate city agencies.

IV. Response from the Office of Cable Communication

Response 1. The Office of Cable Communications will work with the City Solicitor's Office to appropriately notify Time Warner Cable of what must be included in total gross revenue and to collect past due franchise fees. After this process is complete, a timetable for implementation can be established. The Cable Administrator will be responsible for seeing that implementation is carried out.

Response 2. The Office of Cable Communications will work with the Solicitor's Office to collect the interest on past due franchise fees. The Cable Administrator will be responsible for seeing that implementation is carried out.

Response 3. The Office of Cable Communications will work with the City Solicitors Office to collect the interest on past due national advertising revenue. The Cable Administrator will take responsibility for seeing that implementation is carried out.

Response 4. The Office of Cable Communications will inform Time Warner the employee subscribers must be included in City subscriber counts. The Cable Administrator will take responsibility for seeing that implementation is carried out.

Response 5. The Office of Cable Communications Cable Administrator will work with Time Warner's Vice President of Public Affairs to implement the above mentioned recommendations. The timing of the above mentioned merger affects the completion of this entire jurisdictional coding issue.

Response 6. The Office of Cable Communications will implement these recommendations immediately.

Response 7. The Office of Cable Communications will consider all of the above changes to the cable franchise agreement when it is renegotiated in 2011 and ensure that these are shared with appropriate city agencies.

V. Appendix of Tables

Table 1. Fees due on total gross revenue in dollars, First Quarter 1998 – Second Quarter 2005

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | Q1&2 2005 |
|---------------------------------|---------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------------|
| Gross Revenue Reported | 36,387,823.97 | 41,119,797.53 | 44,124,340.97 | 45,551,353.65 | 46,852,770.80 | 47,694,958.93 | 51,163,553.05 | 25,338,219.04 |
| Gross Revenue including Fee | 38,207,215.17 | 43,175,787.41 | 46,330,558.02 | 47,828,921.33 | 49,195,409.34 | 50,079,706.88 | 53,721,730.70 | 26,605,129.99 |
| Paid to the City (5% of line 1) | 1,819,391.20 | 2,055,989.88 | 2,206,217.05 | 2,277,567.68 | 2,342,638.54 | 2,384,747.95 | 2,558,177.65 | 1,266,910.95 |
| Actually Due (5% of line 2) | 1,910,360.76 | 2,158,789.37 | 2,316,527.90 | 2,391,446.07 | 2,459,770.47 | 2,503,985.34 | 2,686,086.54 | 1,330,256.50 |
| | | | | | | | | |
| Difference Due | 90,969.56 | 102,799.49 | 110,310.85 | 113,878.38 | 117,131.93 | 119,237.40 | 127,908.88 | 63,345.55 |
| | | | | | | | | |
| Total Due, 98-05 | \$845,582.04 | | | | | | | |

Table 2. Interest due on unpaid franchise fees in dollars, First Quarter 1998 – Second Quarter 2005

| Quarter End | Fee Paid | Fee Due | Amount Due | Due Date | Current Date | Days Late | Interest |
|--------------------|---|----------------|-------------------|-----------------|---------------------|------------------|----------------------|
| 3/31/1998 | 437,250.14 | 459,112.65 | 21,862.51 | 5/15/1998 | 6/30/2005 | 2565 | \$ 18,436.38 |
| 6/30/1998 | 462,487.93 | 485,612.33 | 23,124.40 | 8/14/1998 | 6/30/2005 | 2476 | \$ 18,823.89 |
| 9/30/1998 | 453,587.28 | 476,266.64 | 22,679.36 | 11/14/1998 | 6/30/2005 | 2386 | \$ 17,790.56 |
| 12/31/1998 | 466,065.85 | 489,369.14 | 23,303.29 | 2/14/1999 | 6/30/2005 | 2296 | \$ 17,590.47 |
| 3/31/1999 | 508,767.49 | 534,205.86 | 25,438.37 | 5/15/1999 | 6/30/2005 | 2205 | \$ 18,441.08 |
| 6/30/1999 | 505,273.10 | 530,536.76 | 25,263.66 | 8/14/1999 | 6/30/2005 | 2116 | \$ 17,575.20 |
| 9/30/1999 | 507,359.92 | 532,727.92 | 25,368.00 | 11/14/1999 | 6/30/2005 | 2026 | \$ 16,897.17 |
| 12/31/1999 | 534,589.37 | 561,318.84 | 26,729.47 | 2/14/2000 | 6/30/2005 | 1936 | \$ 17,013.12 |
| 3/31/2000 | 552,093.80 | 579,698.49 | 27,604.69 | 5/15/2000 | 6/30/2005 | 1845 | \$ 16,744.32 |
| 6/30/2000 | 573,273.95 | 601,937.65 | 28,663.70 | 8/14/2000 | 6/30/2005 | 1756 | \$ 16,547.98 |
| 9/30/2000 | 546,769.07 | 574,107.52 | 27,338.45 | 11/14/2000 | 6/30/2005 | 1666 | \$ 14,973.98 |
| 12/31/2000 | 534,080.23 | 560,784.24 | 26,704.01 | 2/14/2001 | 6/30/2005 | 1576 | \$ 13,836.34 |
| 3/31/2001 | 567,740.40 | 596,127.42 | 28,387.02 | 5/15/2001 | 6/30/2005 | 1485 | \$ 13,859.09 |
| 6/30/2001 | 590,991.79 | 620,541.38 | 29,549.59 | 8/14/2001 | 6/30/2005 | 1396 | \$ 13,562.05 |
| 9/30/2001 | The audit could not locate the report with Q3 2001 values, but this amount is included in Q4 2001 | | | | | | |
| 12/31/2001 | 1,118,835.49 | 1,174,777.26 | 55,941.77 | 2/14/2002 | 6/30/2005 | 1216 | \$ 22,364.45 |
| 3/31/2002 | 621,956.49 | 653,054.31 | 31,097.82 | 5/15/2002 | 6/30/2005 | 1125 | \$ 11,501.94 |
| 6/30/2002 | 602,340.25 | 632,457.26 | 30,117.01 | 8/14/2002 | 6/30/2005 | 1036 | \$ 10,257.94 |
| 9/30/2002 | 567,083.97 | 595,438.17 | 28,354.20 | 11/14/2002 | 6/30/2005 | 946 | \$ 8,818.54 |
| 12/31/2002 | 551,257.84 | 578,820.73 | 27,562.89 | 2/14/2003 | 6/30/2005 | 856 | \$ 7,756.88 |
| 3/31/2003 | 600,408.15 | 630,428.56 | 30,020.41 | 5/15/2003 | 6/30/2005 | 765 | \$ 7,550.34 |
| 6/30/2003 | 605,850.51 | 636,143.04 | 30,292.53 | 8/14/2003 | 6/30/2005 | 676 | \$ 6,732.41 |
| 9/30/2003 | 586,677.81 | 616,011.70 | 29,333.89 | 11/14/2003 | 6/30/2005 | 586 | \$ 5,651.40 |
| 12/31/2003 | 591,811.48 | 621,402.05 | 29,590.57 | 2/14/2004 | 6/30/2005 | 496 | \$ 4,825.29 |
| 3/31/2004 | 605,510.75 | 635,786.29 | 30,275.54 | 5/15/2004 | 6/30/2005 | 405 | \$ 4,031.21 |
| 6/30/2004 | 631,640.89 | 663,222.93 | 31,582.04 | 8/14/2004 | 6/30/2005 | 316 | \$ 3,281.07 |
| 9/30/2004 | 600,873.88 | 630,917.57 | 30,043.69 | 11/14/2004 | 6/30/2005 | 226 | \$ 2,232.29 |
| 12/31/2004 | 720,152.15 | 756,159.76 | 36,007.61 | 2/14/2005 | 6/30/2005 | 136 | \$ 1,609.98 |
| 3/31/2005 | 624,608.46 | 655,838.88 | 31,230.42 | 5/15/2005 | 6/30/2005 | 45 | \$ 462.04 |
| 6/30/2005 | 642,302.49 | 674,417.61 | 32,115.12 | 8/14/2004 | 6/30/2005 | 0 | \$ - |
| TOTAL | | | | | | | \$ 329,167.41 |

Table 3. Interest due on national ad revenue, 2000 - 2003

| Quarter End | Fee Paid | Due Date | Paid | Days Late | Interest Due |
|--------------------|-----------------|-----------------|-------------|------------------|---------------------|
| 12/31/2000 | \$ 11,824.00 | 2/14/2001 | 1/31/2005 | 1427 | \$ 5,547.24 |
| 12/31/2001 | \$ 40,383.00 | 2/14/2002 | 1/31/2005 | 1067 | \$ 14,166.14 |
| 12/31/2002 | \$ 44,046.00 | 2/14/2003 | 1/31/2005 | 707 | \$ 10,237.98 |
| 12/31/2003 | \$ 1,518.00 | 2/14/2004 | 1/31/2005 | 347 | \$ 173.18 |
| TOTAL | | | | | \$ 30,124.53 |