

**Accounting & Consulting Services
for
Cable Television Franchising Authorities**



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Consider the Value of an Independent Review

Your constituents/cable subscribers are depending on you to protect their interests. How would you answer these questions?

- Are you receiving all the revenue to which your franchise agreement entitles you?
- Is the revenue collected by your authority based on verifiable data?
- Does your franchise agreement maximize the fees that you can get?

If you said, "I'm not certain," to any of these questions, Sikich LLP can help you find the answers.

Your local cable operator wants to maximize profit. That's why the company is in business. Your role is to make sure the cable operator achieves that goal within the rules established by the FCC, the state, and the franchise agreement you have.

The specialists at Sikich have been working with local franchising authorities for more than 25 years to help ensure compliance and develop relationships that benefit both their citizens and the operator. We represent only local franchising authorities. This is your assurance that our work will protect the best interests of your constituents/cable subscribers. The area where problems frequently occur is franchise fee compliance.

Franchise Fee Compliance

Franchise fees are set as a percent of the operator's gross revenue. Differences between local franchising authorities and operators often arise regarding how gross revenue is counted. Our staff is specifically trained in auditing and accounting. We understand how operators maintain their accounting records. This gives us a better chance of finding any unreported revenues and ensuring you receive the full franchise fee due to you.

We assist many local franchising authorities by performing what are commonly referred to as "franchise fee audits," which seek to verify the degree of franchise fee compliance on the part of the cable company. By periodically testing the cable company's compliance with the terms of the franchise agreement, your local franchising authority can benefit in a variety of ways, including:

- Any shortfall in reported revenues can be detected, resulting in additional franchise fees. Our experience has shown that underreported gross revenues can range up to \$2,000,000.
- The cable company will be less likely to underreport in the first place if it knows it will be subject to review.
- Noncompliance findings may be useful in franchise renewal, modification, transfer, or litigation proceedings.

Franchise Fee Compliance (Continued)

We will evaluate the cable operator's internal control and accounting systems to gain an understanding of how gross revenues are compiled and reported for franchise fee purposes. Next, we will design and perform specific procedures to determine whether gross subscriber revenues (including late fees, refund collection charges, and bad debt reserves) are fully and accurately reported. This will include testing of the billing, cash receipts, and accounting/reporting systems.

In addition, we will investigate the nonsubscriber gross revenues such as advertising, shopping commissions, launch fees, etc. We believe that those types of revenues are the high-risk areas. Our experience has shown that judgment to be true as our noncompliance findings frequently include underreported amounts for nonsubscriber gross revenue categories. For example, we often find that advertising revenues, if reported at all, are reported net of agency commissions and other expenses, and may not have been allocated correctly to the local franchising authority.

Negotiation

Franchise award, modification, transfer, and renewal processes require franchise authorities to make decisions and negotiate terms on a wide variety of issues. Knowing the cable company's profitability and financial condition can be of significant assistance in "cutting a deal."

The Franchise Agreement usually contains a number of provisions which significantly affect a franchise authority's rights and financial benefits:

- Gross Revenues - definition, what is included/excluded
- Books and Records - extent of detail, accounting basis, accounting structure, location, related entities, access to financial records
- Audit Capability - location, time period ("statute of limitations"), audit fee recovery, penalties and interest, reasonable cooperation, access to related entities' financial records
- Reporting - frequency, format, annual financial reporting, and sufficiency of detail of revenues within financial documents as reported

Sikich can review these provisions and offer constructive comments to enhance a local franchising authority's position.

Financial Condition

Frequently, the cable company's financial statements provide limited information on which a franchising authority can base an assessment of its financial condition. In order to be able to evaluate whether or not the company is financially viable, a number of factors should be considered:

- Liquidity and Cash Flows
- Profitability
- Debt and Equity Structure, including the ability to raise additional capital and incur more debt
- Multi-year trend analyses compared to key industry standards

Franchise-level companies also share costs and revenues with other related franchise-level and "parent" companies. Frequent questions that arise are:

- Are "allocable" revenues (such as advertising, shopping commissions, etc.) and "allocable" expenses (such as rent/occupancy, salaries and benefits, etc.) equitably apportioned?
- Has programming cost been charged to the franchise-level company (by a parent) on a "standalone" rate basis or at the parent's discounted rate?
- Are costs charged to the franchise-level company such as management fees, interest, overhead, etc., reasonable?
- Has the cost of plant and equipment charged been reasonable or has the parent made a profit on an inter-company sale?

Sikich can help you get these answers.

Financial Performance

During the term of a franchise, the cable company may represent that it has complied with contractual provisions such as:

- Plant and equipment enhancements
- Access and local origination equipment and operating costs
- Repair and maintenance costs
- Other specific items in the contract

Many times, little, if any, documentation is supplied to support a cable company's assertions. Sikich can perform procedures to determine whether or not those financial commitments have been fulfilled.

Litigation Support

Sikich can provide expert analysis work and testimony should the need arise.

Summary of Cable Television Projects

Sikich's state and local government team provides services to more than 350 counties, cities, villages, towns and other governments. Our specialists in the local franchising industry have successfully performed multiple compilation and consulting engagements, including services to the following:

Redmond, WA	Downers Grove, IL
Akron, OH	West Allis, WI
Fort Collins, CO	Saint Paul, MN
Northbrook, IL	Contra Costa County, CA
Gladstone, MO	Intercommunity Cable Regulatory Commission, OH
Sunnyvale, CA	Indianapolis, IN
Rock Hill, SC	Miami Valley Cable Council, OH
Louisville, KY	Lake County Cable Consortium, IN
Peoria, IL	Lynchburg, VA
Lake County, IL	Anderson, IN
Oak Park, IL	Iowa City, IA
Northern Dakota County Cable Communications Commission, MN	Hagerstown, MD

In addition to the preceding engagements, we have:

- Assisted a Minnesota municipality during its performance review by analyzing and verifying numerous aspects of the cable company's financial performance.
- Assisted an Illinois consortium in evaluating franchise proposals from cable companies by reviewing and analyzing the financial representations of those companies.
- Reviewed, for an Illinois municipality, the financial condition and other representations of a cable company which was acquiring multiple franchises of the original franchisee.
- Reviewed, for a Georgia county, the financial projections of a proposed overbuilder.

Our Commitment to Local Franchising Authorities

Our mission is to provide our clients an unparalleled level of commitment, quality, and service to meet their financial and consulting needs. Partner accessibility, teamwork, and communication are combined to assist your franchising authority in achieving long-term success.

If you require an accounting firm that is attentive to your unique needs, understands your industry, and maintains the resources to help your franchising authority provide the services its constituents demand, then the auditing and consulting services of Sikich LLP are the best fit for you.

For more information contact:

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