Port of Seattle

Internal Audit Report

Clear Channel Outdoor, Inc
(dba Clear Channel Airports)

Lease and Concession Compliance Audit

August 1, 2007 through July 31, 2009

Issue Date: January 12, 2010
Report No. 2010-02

Table of Contents

Internal Auditor's Report

We have completed an audit of the Lease and Concession Agreement between the Port of Seattle and Clear Channel Outdoor, Inc., dba Clear Channel Airports. The purpose of this audit was to determine whether:

1) Reported concession was complete, properly calculated and remitted timely to the Port.
2) Port and the Lessee complied with provisions of the Lease and Concession Agreement.
3) Lease and Concession Agreement complies with applicable state and Port requirements.

We examined information related to agreement period August 1, 2007 through July 31, 2009.

We conducted our audit using due professional care, and we planned and performed the audit to obtain reasonable assurance as to whether the Port and the lessee had complied with all provisions of the agreement.

We found no significant instances of non-compliance. The agreement complied with applicable state and Port requirements, and the reported concession was complete and in compliance with the agreement terms.

We extend our appreciation to the management and staff of the Aviation Business Development and Accounting & Financial Reporting (AFR) for their assistance and cooperation during the audit.

Joyce Kirangi, CPA
Director, Internal Audit

Port of Seattle

Internal Audit
Clear Channel Airports (Agreement No. 950)
Audit Period: July 1, 2007 – August 31, 2009

Executive Summary

Audit Scope and Objective The purpose of the audit was to determine whether:

1) Reported concession was complete, properly calculated and remitted timely to the Port.
2) Port and the Lessee complied with provisions of the Lease and Concession Agreement.
3) Lease and Concession Agreement complies with applicable state and Port requirements.

We examined the books and records of Clear Channel Airports in order to verify the accuracy and completeness of reported gross receipts and concession fees paid to the Port from August 1, 2007 through July 31, 2009. Aviation Business Development has the primary responsibility for administering and monitoring the agreement to ensure compliance with agreed-upon terms and conditions including proper and complete reporting of concessionable gross receipts.

Agreement Terms Clear Channel Airports develops, manages, and operates, commercial advertising and promotions in the airport. Under the terms of the agreement, Clear Channel Airports agreed to pay concession fees from advertising revenues as follows:

- First Year - 70% concession on gross receipts generated from allowable advertising activity equal to or in excess of $6.4 million OR Minimum Annual Guarantee (MAG) of $3,750,000 million.
- Subsequent Year - 67% concession on gross receipts generated from allowable advertising activity equal to or in excess of $6.4 million OR Minimum Annual Guarantee (MAG) of $4,000,000.

Audit Result Summary We found no significant instances of non-compliance. The agreement complied with applicable state and Port requirements, and the reported concession was complete and in compliance with the agreement terms.

Background

Paris-based JCDecaux was a concessionaire for advertising venues at the airport until July 2007. Upon expiration of the lease, a new agreement was solicited through a public competitive process, and Clear Channel Airports was selected as the successful bidder.

Clear Channel is one of the leaders in the outdoor advertising industry with worldwide presence. The company operates at some of the most heavily used airports in the nation including Seattle-Tacoma International and Dallas Fort Worth, and delivers over one billion targeted advertising exposures annually.

Clear Channel develops, operates, and manages various commercial advertising mediums including banners and printed/digital display cases in the airport. Under the terms of the agreement, monthly concession fees based on gross receipts from advertising activity are due to the Port as follows:

- First Year
  - 70% concession on receipts equal to or in excess of $6.4 million, OR
  - Minimum Annual Guarantee (MAG) of $3,750,000 million.
- Subsequent Year
  - 67% concession on receipts equal to or in excess of $6.4 million, OR
  - Minimum Annual Guarantee (MAG) of $4,000,000.

In the past two agreement years, the Port has received the following concession fees.

	Fiscal Year Ending 7/31	
	2008	2009
Concessionable Gross Receipts	$5,384,718	$4,114,905
Concession to the Port	$3,750,000	$4,000,000

Source: Port Accounting and Lessee's financial records

Aviation Business Development with the assistance from Accounting and Financial Reporting is responsibility for administering and monitoring the agreement to ensure compliance with agreed-upon terms and conditions including proper and complete reporting of concessionable gross receipts.

Audit Objectives

To determine whether:

1) Reported concession was complete, properly calculated and remitted timely to the Port.
2) Port and the Lessee complied with provisions of the Lease and Concession Agreement.
3) Lease and Concession Agreement complies with applicable state and Port requirements.

Audit Scope

The scope of the audit covered the period of August 1, 2007 through July 31, 2009.

Audit Approach

To achieve our audit objectives, we performed the following procedures:

- Obtained an understanding of the lease agreement.
- Identified significant provisions in the agreement to establish the extent of necessary audit procedures.
- Obtained necessary financial and non-financial data from the lessee
- Analyzed data (internal & external) to determine completeness & compliance:
    - Reconciliation of the reported gross to the lessee's accounting records to ensure consistency.
    - Recalculation of concession and related fees to ensure accuracy.
    - Walk-through at the airport to ensure the completeness of the lessee's billings as a basis of concessionable gross receipts.

Conclusion

We found no significant instances of non-compliance. The agreement complied with applicable state and Port requirements, and the reported concession was complete and in compliance with the agreement terms.