

INTERNAL AUDIT REPORT



Limited Contract Compliance Audit
In-Ter-Space Services, Inc. DBA Clear Channel Airports

January 1, 2019 – December 31, 2021

Issue Date: May 26, 2022

Report No. 2022 - 07

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Executive Summary

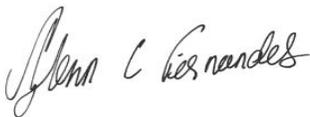
Internal Audit (IA) completed an audit of the Lease Agreement (Agreement) between In-Ter-Space Services, Inc. DBA Clear Channel Airports (In-Ter-Space Services) for the period January 2019 through December 2021, for a promotional and advertising services concession, in the Seattle Tacoma International Airport (SEA). The audit was performed to determine whether In-Ter-Space Services complied with significant provisions of the Agreement, including whether reported revenues and percentage fees, were complete and accurate.

In-Ter-Space Services generates revenue primarily from the sale of advertising space on printed and digital, out-of-home advertising displays, which may be sold as individual units or as a network package. These contracts typically cover periods of a few weeks to one year, although there are some with longer terms. Revenues from the sale of advertising space on displays is generally recognized ratably over the term of the contract, during which the advertisement is displayed. The company also generates revenue from production and creative services, which are distinct from the advertising display service. This revenue is recognized at the point in time when the company installs the advertising copy at the display site.

In June 2020, in order to promote financial stability of the airport dining and retail tenants during pandemic, the Port of Seattle (Port) Commission authorized the temporary suspension (elimination) of the Minimum Annual Guarantee (MAG) payments, for March through December 2020. In-Ter-Space Services was also given Percentage Fees and applicable leasehold taxes deferrals, for the period of April 2020 through June 2020. The deferred amounts were all repaid by In-Ter-Space Services, before March 31, 2021, without accrual of interest. Additionally, per the Rent Relief Agreement under the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA), In-Ter-Space Services received \$449,072.51 as its pro-rated share of the grant, as a rent credit in 2021.

We concluded In-Ter Space Services had materially complied with the significant terms of the Agreement. No issues were identified requiring a management response.

We extend our appreciation to management and staff of Airport Dining and Retail, Aviation Finance and Budget, Accounting and Financial Reporting, and In-Ter-Space Services for their assistance and cooperation during the audit.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Rudy Caluza, Director, Accounting and Financial Reporting
Dawn Hunter, Aviation Chief Operating Officer
Lisa Lam, Assistant Director, Financial Reporting Revenue Services
Khalia Moore, Senior Business Manager, Airport Dining and Retail
Linda Nelson, Senior Manager, Aviation Finance and Budget
Jeff Wolf, Director, Aviation Commercial Management

Background

The Port entered into a renewed ten-year Lease Agreement, effective August 1, 2017, with In-Ter-Space Services, Inc. DBA Clear Channel Airports (In-Ter-Space Services), for a promotional and advertising services concession at Seattle Tacoma International Airport (SEA). Clear Channel Airports is a brand division of Clear Channel Outdoor Holdings, Inc. (NYSE: CCO). CCO is one of the world's largest outdoor advertising companies with a diverse portfolio of approximately 500,000 print and digital displays in 26 countries, reaching millions of people monthly. A growing digital platform includes more than 17,000 digital displays in international markets and more than 3,700 digital displays, including more than 1,500 digital billboards, in the United States.¹

Per the Agreement, In-Ter-Space Services is required to pay a Minimum Annual Guarantee (MAG) equal to 85% of the total amount paid for the previous agreement year, in equal monthly payments payable on or before the first day of each month. Additionally, the Agreement requires payment of a Percentage Fee, based on a percentage of gross revenue, provided the fee is higher than the MAG. The Percentage Fee is equal to 67 percent of gross sales, of which the first seven percent is specified as Contract Rent, and is due on or before the fifteenth day of each following month.

The table below reflects gross concession revenue and percentage fees billed:

Agreement Year (January – December)	Gross Revenue (\$)	Percentage Fees (\$)	Contract Rent (\$)
2019	10,607,239	6,364,343	742,507
2020	6,168,792	3,701,275	431,815
2021	5,259,048	3,155,428	368,133
Total	22,035,079	13,221,046	1,542,455

Source: In-Ter-Space Services Monthly Revenue Reports & Annual Statement of Gross Receipt Audit Reports by Buckno Llsicky & Company; PeopleSoft Financials, and AFR Concession documents

Gross receipts are defined in the Agreement as any and all monies paid or payable to In-Ter-Space Services, by or on account of sales made or services rendered from the operation of advertising space at SEA, with certain exclusions: commissions paid, discounts actually made to advertising customers, reimbursements received for actual out-of-pocket costs, and any sales or excise taxes collected.

¹ May 23, 2022, <https://investor.clearchannel.com/home/default.aspx>, includes 1,700 digital displays in Airports.

Audit Scope and Methodology

We conducted the engagement in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

In some cases, we used a judgmental method to determine the samples selected for our audit test work. In those cases, the results of the work cannot be projected to the population as a whole, as we did not select a random sample.

The period audited was January 2019 through December 2021 and included the following procedures:

Concession Fees Completeness, Accuracy, and Timeliness

- Reviewed relevant documents (e.g., Commission records, Port's Rent Deferral program, CRRSAA grant agreements, billing adjustment worksheets, etc.) to gain understanding of the changes to the requirements for MAG and Percentage Fee payments, due to COVID-19.
- Tested the tenant's billing and payments for all months in the audit period, to determine whether the MAG payments and percentage fees were billed and paid accurately, completely, and timely.
- Reconciled revenues reported to the Port, to the tenant's General Ledger, Profit and Loss reports, independently audited revenue schedules, and the tenant's Quattro billing/business activity data.
- Analyzed deductions to determine whether they were properly classified and correctly deducted from gross revenues, as reflected in the Agreement.
- Tested a sample of installation services revenue deductions, to verify the accuracy of the deducted amounts, per the Agreement provision.

Surety and Insurance Compliance

- Reviewed the tenant's rent security amount, bonded by an insurance company, for compliance with the Agreement, Port Policy (Port RE-2), and Washington State Law (RCW 53.08.085).
- Reviewed the tenant's Certificates of Insurance for compliance with the Agreement terms.

Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

Rating	Financial Stewardship	Internal Controls	Compliance	Public	Commission/ Management
High	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
Medium	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Moderate probability for external audit issues and / or negative public perception	Requires attention
Low	Minimal	Functioning as intended but could be enhanced	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention