CABLE TV FRANCHISE

Independent Auditor's Report and
Statements of Franchise Revenues and Expenses

For the Years Ended December 31, 2023 and 2022

MGO | Certified Public Accountants

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Independent Auditor's Report

Honorable Mayor and Members
of the City Council of the City of Palo Alto
Palo Alto, California

Opinion

We have audited the Statements of Franchise Revenues and Expenses (financial statements) of the Cable TV Franchise (Franchise) for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Franchise's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenses of the Franchise for the years ended December 31, 2023 and 2022, in accordance with the financial reporting provisions of the Amended and Restated Joint Exercise of Powers Agreement signed on June 9, 2009, between the City of Palo Alto, the City of East Palo Alto, the City of Menlo Park, the County of San Mateo, the County of Santa Clara, and the Town of Atherton, as described in Note 1 to the financial statements (Agreement).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Franchise, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the financial statements are prepared in accordance with the financial reporting provisions of the Agreement, which is a basis of accounting other than accounting principles generally accepted in the United States of America and are not intended to be a complete presentation of the Franchise's financial position or results of operations. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of the Agreement, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Franchise's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Restriction on Use

This report is intended solely for the information and use of the governing bodies and management of the City of Palo Alto, the City of East Palo Alto, the City of Menlo Park, the County of San Mateo, the County of Santa Clara, and the Town of Atherton, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 8, 2024

CABLE TV FRANCHISE

Statements of Franchise Revenues and Expenses

For the Years Ended December 31, 2023 and 2022

	2023	2022
Revenues:		
Franchise fees	$ 1,430,110	$ 1,548,870
Expenses:		
Franchise administration	8,971	6,728
Consulting fees	-	-
Total expenses	8,971	6,728
Net revenues	$ 1,421,139	$ 1,542,142

	2023		2022	
	Amount	Percent	Amount	Percent
Allocated Net Revenues:				
City of Palo Alto	$ 670,814	47.2%	$ 732,658	47.5%
City of Menlo Park	376,315	26.5%	410,245	26.6%
City of East Palo Alto	133,381	9.3%	150,310	9.8%
Town of Atherton	133,080	9.4%	135,934	8.8%
County of Santa Clara	80,757	5.7%	85,519	5.5%
County of San Mateo	26,792	1.9%	27,476	1.8%
Total allocated net revenues	$ 1,421,139	100.0%	$ 1,542,142	100.0%

See accompanying notes to the financial statements.

CABLE TV FRANCHISE
Notes to the Financial Statements
For the Years Ended December 31, 2023 and 2022

NOTE 1 – JOINT OPERATING AGREEMENT AND BASIS OF ACCOUNTING

In July 1983, a Joint Exercise of Powers Agreement was entered into by and between the Cities of Palo Alto, Menlo Park, East Palo Alto, the Counties of San Mateo and Santa Clara, and the Town of Atherton (Members) for the purpose of obtaining a state-of-the-art cable service for residents, businesses, and institutions, within each of their jurisdictions in the most efficient and economical manner possible.

In October 1988, the Members entered into a Joint Operating Agreement in which the City of Palo Alto (City) was granted the power and the authority to administer and coordinate the activities of the franchise and exercise the rights and responsibilities of the City pursuant to the Franchise Agreement. The activities are administered by the City and are accounted for within the City's Custodial Fund. The program is accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recognized when the liability is incurred.

On August 9, 2000, the City, acting on behalf of the Members, signed a Franchise Agreement with TCI Cablevision of California, Inc., a wholly owned subsidiary of AT&T Broadband (AT&T), a third-party contractor, which was granted a non-exclusive franchise to construct, operate, maintain and repair a cable television system within the Members jurisdictions. In 2002, the Franchise Agreement was transferred from AT&T to Comcast Corporation (Comcast).

TCI Cablevision of California, Inc. also signed an asset purchase agreement with Cable Communications Cooperative of Palo Alto, Inc. (CCCOPA), the former cable television system operator/owner, and acquired the system.

On January 1, 2007, the Digital Infrastructure and Video Competition Act (DIVCA) went into effect. Under DIVCA, cable and video service franchises are now granted exclusively by the California Public Utilities Commission (Commission) rather than by local franchising entities. On March 30, 2007, the Commission granted AT&T a statewide franchise. Comcast was allowed to seek a State franchise after January 1, 2008, when another State franchise holder (in this case AT&T) entered the local market. On January 2, 2008, the Commission granted Comcast a State franchise.

On June 9, 2009, the Members approved an Amended and Restated Joint Exercise of Powers Agreement, in substitution of the existing Joint Exercise of Powers Agreement and the Joint Operating Agreement, to reflect changes in the law due to DIVCA and to continue to allow the City to administer the cable and video franchise enforcement and monitoring process for State franchise holders.

The accompanying financial statements are prepared in accordance with the financial reporting provisions of the Amended and Restated Joint Exercise of Powers Agreement between the Members, which is a basis of accounting other than accounting principles generally accepted in the United States of America, and are not intended to be a complete presentation of the Franchise's financial position or results of operations.

As compensation for services under the State franchise agreements, AT&T and Comcast pay annual franchise fees in an amount equal to 5% of annual gross revenues, considering a reasonable adjustment for bad debts. From these fees the City is first reimbursed for out-of-pocket franchise administration costs. The remaining fees are distributed to each Member according to the percentage of revenues derived from the residents and businesses in each of the entities compared to revenues in total.

NOTE 2 – PRIOR FRANCHISE SETTLEMENTS

A prior Franchise Agreement with CCCOPA was set to expire on March 24, 2001. On June 21, 1999, the City hired a cable communications consultant and retained the services of a law firm to assist in the franchise renewal process. On July 31, 2000, CCCOPA reimbursed the City $185,000 toward the actual costs incurred as part of the franchise renewal efforts.

On July 24, 2000, the City reached a settlement with CCCOPA in the amount of $220,000 to resolve outstanding claims resulting from CCCOPA's alleged failure to fully perform under the prior Franchise Agreement.

On November 22, 2004, the City reached a settlement agreement with Comcast regarding cable plant construction claims in the amount of $175,000. This money was to be used towards the institutional network connection costs.

In 2006, the City conducted a franchise compliance audit performed by the City Auditor's Office. A settlement was reached in the amount of $155,391. In addition, CCCOPA paid the City a $250,000 grant to acquire, install, and/or maintain equipment to be used in connection with an institutional network defined in the Franchise Agreement.

In 2016, the City Auditor discovered that AT&T and Comcast did not consistently calculate the fees due in accordance with DIVCA and the municipal code of each of the cable joint powers members. As a result of the audit, the City received a settlement from AT&T in the amount of $75,647 in 2016. Additionally, the City received a settlement from Comcast in the amount of $25,000 in 2019.

The settlements and grant have been deposited and are being held by the City and earning interest. The City has since spent a part of the balance on various projects including installing and maintaining the institutional network equipment.

As of December 31, 2023 and 2022, the remaining balances on deposit with the City, including balances from other funding sources, were $1,685,064, and $1,485,453 respectively. These balances include interest receivable of $8,876 and $6,965 at December 31, 2023 and 2022, respectively.