

Avenu Audit & Collections Department  
c/o City of Reno, NV  
600 Beacon Parkway West, Ste. 900  
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Charter Fiberlink NV  
12405 Powerscourt Dr.  
Saint Louis, MO 63131  
Attn: Sandra Cuellar, Director of Government Affairs

January 4, 2021

RE: License Number: R99795U; Compliance Audit for Periods: April 1, 2016 through March 31, 2019

Dear Ms. Cuellar:

Avenu Insights & Analytic, LLC d/b/a MuniServices, LLC ("Avenu") has completed the franchise fee compliance review for the period of April 1, 2016 through March 31, 2019 of Charter Fiberlink NV. ("Charter") for the City of Reno, Nevada ("City"). Avenu has found that Charter underreported business license taxes to the City in the amount of **\$63,923**, which is attributable to the exclusion of certain revenue accounts.

Pursuant to Reno City Code § 5.95.010(c), the City levies a penalty of two percent (2%) per month on any unpaid taxes from the date the tax was first due until the tax is paid. Based on the under-reported principle amount, the applicable penalties are **\$45,540** which brings the total amount due to **\$109,463**.

The attached report of examination presents the errors discovered and the adjusted business license computations. If you have any questions about this report or have additional information that should be considered, please contact my office at (205) 423-4128 on or before January 22, 2021. If you do not have any additional information to provide, please remit your payment in the amount of **\$109,463**, payable to **City of Reno**, on or before January 29, 2021 and mail to:

Finance Dept.  
ATTN: Emily Kidd  
1 E. First Street  
Reno, NV 89505

Thanks for your cooperation in resolving this examination. We wish you continued success for the future.

Sincerely,

A handwritten signature in blue ink that reads 'Christopher W. Wills'.

Christopher W. Wills  
Audit Manager

# **City of Reno, NV Telecommunications Business License Fee Report of Examination**

Issued:  
January 4, 2021

## **Charter Fiberlink**

**Examination Period:**  
April 1, 2016 through March 31, 2019



**City of Reno  
Finance Department  
P.O. Box 1900  
Reno, Nevada 89506**



**Avenu Insights & Analytics, LLC  
Audit Division  
600 Beacon Parkway West Ste. 900  
Birmingham, AL 35209**

REPORT OF EXAMINATION

**Executive Summary:**

This report presents the results of Avenu Insights & Analytics', hereinafter referred to as "Avenu", audit of Charter Fiberlink, hereinafter referred to as "Charter", for the period of April 1, 2016 through March 31, 2019 operating within the City of Reno, Nevada, hereinafter referred to as the "City". Avenu was contracted as a third party to conduct a compliance review of its Business License Fee ordinance within the City.

The objectives of this audit were to: 1) determine if the business license fees were properly calculated; 2) verify all appropriate revenues were included in those calculations; and 3) to confirm the methodology for calculating and remitting the business license fees. This audit looks to address: Charter's system for calculating gross revenues from providing retail internet connectivity through fiber-optic cables inside the incorporated limits of the City, Charter's procedures for confirming customers located inside the City's limits, revenue included in the calculation of business license fees, and substantiate the business license fee remittances.

During the period reviewed, Charter reported approximately \$5,513,845 in taxable receipts and paid the City approximately \$275,692 in business license fees. After an in-depth review of Charter's calculation of taxable revenue, an additional amount of \$63,923 was found to be due in business license fees to the City. This error is a result of Charter's failure to include all applicable revenue accounts in the gross receipts calculation. The additional amounts due to the City for the audit period are as follows.

<i>Summary of Audit Findings*</i>	
<i>Excluded Revenue Accounts</i>	<i>\$63,923</i>
<i>Penalty-2%</i>	<i>\$45,540</i>
<b>Total Business License Fees Due to City</b>	<b>\$109,463</b>

*\*Amounts rounded to the nearest whole dollar*

**Current Methods:**

Charter is currently operating within the City under the *Reno Municipal Code*, § 5.95 (*Telecommunications*). Charter is required to remit five percent (5%) of the total “*gross receipts*” derived from the revenue received from customers within the City. The fees are paid to the City within thirty days following the end of each calendar quarter.

*Reno Municipal Code*, § 5.95.010. - Telecommunications and video service.

*(a) Every business entity providing telecommunications service within the city must obtain and pay for an annual business license. Every business entity providing video service within the city as defined by NRS 711.141 must obtain a certificate of authority issued by the Secretary of State pursuant to NRS chapter 711. The fee for such license, or franchise fee for such certificate of authority, is payable to the city not later than 30 calendar days after the end of each calendar quarter and shall be five percent of the total gross receipts.*

*(b) "Total gross receipts" means:*

*(1) Revenue received from customers located within the city for local or intrastate telecommunications service;*

Charter bills their customers the five percent license tax on all taxable services through a license fee surcharge that is separately stated on customer bills. The license fees billed to customers are totaled on a quarterly basis and are sent to a third party, KPMG, who remits the returns on their behalf.

Charter performs all customer coding within their billing system using a combination of three data points and a geocode to identify the jurisdictions applicable to each customer. When a new customer comes online or a new house is built, the address provided is entered into the billing system which identifies and applies the jurisdictional information to the customer's account. The billing system will then apply the correct charges and taxes based on the jurisdictional information that was entered into the billing system at the time of conception.

**Audit Procedures and Testing Methodology:**

Preliminary activities performed by Avenu included a thorough review of the City ordinance, review of Charter's tariffs and other applicable documents, and review of the business license fee remittance history for the period under review. An initial Request for Information (RFI) was sent to Charter that included the appropriate documents to perform the examination of records. An opening interview was conducted to discuss the RFI and obtain an understanding of Charter's general business operations, products and services offered, and relevant customer base. Charter's accounting practices, billing system(s) used, and types of electronic data available for the review were also determined through the initial discussion and request for records. Charter's sales volume and the use of sample months were also discussed during the opening conference. A detailed review of the following sample months was agreed upon to complete this audit: November 2017, July 2018, and March 2019.

Avenu performed a review of the following supplied documentation: applicable City ordinance section(s), customer bills, chart of accounts, customer listing with addresses, transactional sales reports, reconciliation reports, tax returns, and the letter of authorization from the City.

Upon receipt of the requested records, the chart of accounts was examined for completeness to ensure all the required revenue and fee accounts were included in the business license fee calculation. The transactional sales reports and customer bills were reviewed to verify all applicable charges were included in the business license calculation and to confirm the pass through of certain charges. The business license fee was recalculated and compared to the tax returns to verify Charter's calculations were correct. All revenue accounts excluded from the

business license fee calculation were identified and examined to determine whether the accounts should be included in the taxable measure.

An analysis of customer addresses coded in an around the City's limits was conducted. The analysis included a review of Charter's procedures for coding customers to service areas as well as verifying addresses for customers located in and around the corporate limits of the City.

The following workpapers were used during the audit and can be provided upon request: *Working Papers, Tax Return Remittance, Reno NV Revenue for sampled months-auditor, Account Descriptions-Answered by TP, City of Reno Address Review w Charter Responses, and Carrier Ethernet Intrastate revenue-All months-Findings.*

#### **Audit Findings and/or Errors Discovered:**

During the examination, it was discovered that Charter failed to include applicable revenue accounts in their calculation of the business license fee. While reviewing the chart of accounts, it was determined that Carrier Ethernet Access for Intrastate and Carrier Ethernet Access for Intrastate Installation accounts were not included in the business license fee calculations during the audit period. Per the definition of "Total gross receipts", this amount should include all "Revenue received from customers located within the city for local or **intrastate telecommunications service**;"

Charter supplied all revenue for these accounts for the entire period under review. The amounts were totaled for both accounts by quarter and multiplied by the business license fee (5%) to calculate the total business license fee due pertaining to this error. See *Table 1: Excluded Account Revenue* for the calculation detail.

<b>Table 1: Excluded Account Revenue</b>					
<b>Quarter</b>	<b>Carrier Ethernet Access Intrastate Installation (a)</b>	<b>Carrier Ethernet Access Intrastate (b)</b>	<b>Total (a+b=c)</b>	<b>Tax Rate (d)</b>	<b>Tax Due (c*d)</b>
Q2 2016	\$ 2,500	\$ 78,310	\$ 80,810	5%	\$ 4,041
Q3 2016	\$ 2,500	\$ 83,357	\$ 85,857	5%	\$ 4,293
Q4 2016	\$ 2,000	\$ 84,277	\$ 86,277	5%	\$ 4,314
Q1 2017	\$ 4,000	\$ 89,020	\$ 93,020	5%	\$ 4,651
Q2 2017	\$ 4,000	\$ 89,172	\$ 93,172	5%	\$ 4,659
Q3 2017	\$ 5,000	\$ 96,229	\$ 101,229	5%	\$ 5,061
Q4 2017	\$ 2,000	\$ 95,527	\$ 97,527	5%	\$ 4,876
Q1 2018	\$ 3,850	\$ 109,475	\$ 113,325	5%	\$ 5,666
Q2 2018	\$ 1,000	\$ 119,780	\$ 120,780	5%	\$ 6,039
Q3 2018	\$ 2,000	\$ 128,244	\$ 130,244	5%	\$ 6,512
Q4 2018	\$ 1,000	\$ 138,191	\$ 139,191	5%	\$ 6,960
Q1 2019	\$ 1,000	\$ 136,030	\$ 137,030	5%	\$ 6,851
<b>Total Business License Fee Due</b>					<b>\$ 63,923</b>

**Penalty:** Penalties have been applied to the business license fee errors found pursuant to *Reno Municipal Code*, § 5.95.010(c). To calculate the total amount of penalties, the business license fees due were separated by quarter and multiplied by the two percent (2%) penalty rate and the number of months the amounts were late. See *Table 2-Penalties* for calculation detail.

*Reno Municipal Code, § 5.95.010. - Telecommunications and video service.*

*(c) A license or franchise fee not received or postmarked within 30 calendar days after the end of each calendar quarter shall be delinquent and the business entity that is subject to this ordinance shall pay, in addition to the fee, a penalty of two percent per month of the delinquent amount.*

<b>Table 2-Penalties</b>				
<b>Period</b>	<b>Business License Fee Due</b>	<b>Penalty Rate</b>	<b>Months Late</b>	<b>Penalties Due</b>
Q2 2016	\$4,041	2%	54	\$4,364
Q3 2016	\$4,293	2%	51	\$4,379
Q4 2016	\$4,314	2%	48	\$4,141
Q1 2017	\$4,651	2%	45	\$4,186
Q2 2017	\$4,659	2%	42	\$3,913
Q3 2017	\$5,061	2%	39	\$3,948
Q4 2017	\$4,876	2%	36	\$3,511
Q1 2018	\$5,666	2%	33	\$3,740
Q2 2018	\$6,039	2%	30	\$3,623
Q3 2018	\$6,512	2%	27	\$3,517
Q4 2018	\$6,960	2%	24	\$3,341
Q1 2019	\$6,851	2%	21	\$2,878
<b>Total Penalties Due</b>				<b>\$45,540</b>

<b>Summary of Audit Findings*</b>	
<i>Table 1: Excluded Account Revenue</i>	\$63,923
<i>Table 2-Penalties</i>	\$45,540
<b>Total Business License Fees Due to City</b>	<b>\$109,463</b>

References:

**Reno Municipal Code, § 5.95.010. - Telecommunications and video service.**

*(a) Every business entity providing telecommunications service within the city must obtain and pay for an annual business license. Every business entity providing video service within the city as defined by NRS 711.141 must obtain a certificate of authority issued by the Secretary of State pursuant to NRS chapter 711. The fee for such license, or franchise fee for such certificate of authority, is payable to the city not later than 30 calendar days after the end of each calendar quarter and shall be five percent of the total gross receipts.*

*(b) "Total gross receipts" means:*

*(1) Revenue received from customers located within the city for local or intrastate telecommunications service;*

*(2) In the case of a "commercial mobile radio service" as defined in Part 20 of Title 47 of the Code of Federal Regulations, revenue received from the first \$15.00 charged monthly for each line of access for each of its customers located within the city; or,*

*(3) In the case of a "video service provider", "gross revenue" as defined by NRS 711.066, as amended.*

*(c) A license or franchise fee not received or postmarked within 30 calendar days after the end of each calendar quarter shall be delinquent and the business entity that is subject to this ordinance shall pay, in addition to the fee, a penalty of two percent per month of the delinquent amount.*