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October 23, 2020

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Pete Pedulla, Executive Director
Town of Chelmsford TeleMedia Department
75 Graniteville Road
Chelmsford, MA 01824

Subject: Review of GAAP Adjustment by Comcast in the Determination of License Fees

Dear Mr. Pedulla:

The Town of Chelmsford, Massachusetts (the "Town") participated in review of the adjustment made by Comcast effective January 2018.¹ Comcast indicated it made the adjustment to conform to generally accepted accounting principles ("GAAP"), specifically Accounting Standards Codification ("ASC") Topics 605 Revenue Recognition and 606 Revenue From Contracts With Customers. ASC 606 was a further enhancement of ASC 605 and was effective for fiscal years starting after December 2017.

SUMMARY

Comcast's implementation of ASCs 605 and 606 failed to follow the specific directives of these GAAP principles. This resulted in improper reductions to license fees paid to the Town for 2018 and 2019 of \$16,041.65 for 2018 and \$8,772.61 for 2019, exclusive of interest.

DISCLAIMER

A&S was not engaged to and did not perform an audit of Comcast, the objective of which would be the expression of an opinion that the financial statements provide a representation of the operations for the period reviewed. Accordingly, we do not express such an opinion. Had A&S performed such additional procedures, other matters might have come to our attention that would have been reported to the City. This report relates only to a review the efficacy of Comcast's adjustment to implement ASCs 605 and 606 and the impact of that adjustment on license fees paid to the Town in 2018 and 2019. This was not an "audit" as set out in Section 7.3 of Comcast's License Agreement with the Town. A&S has relied solely on the information provided to us by the Town and Comcast. This report is intended solely for the information and use of the Town, is not intended to be, and should not be used by anyone other than this specified party.

¹ The other participants are the City of Boston, Massachusetts, Carroll County Regulatory Commission of Maryland, the City of St. Louis Park, Minnesota, the City of Newburyport Massachusetts and the Town of Westford, Massachusetts.

DISCUSSION

Comcast provides cable/video service under its license agreement with the Town in addition to high-speed data or Internet, voice/telephone and security services. Comcast in many cases provides packages of these services in what is typically referred to as a bundle. The bundle may contain as few as two of the services or combinations of different services. The subscriber agrees to take the bundle package for a specific period of time, usually 12 or 18 months, during which time the price and the components of the bundle do not change. However, other products and services outside of the bundle can vary and the price can change.

When these services are provided in a bundle, Comcast typically prices the package at a significant discount from the standalone prices of the products, i.e. if the subscriber purchased the services individually. ASCs 605 and 606 address and set the rules how the discounts associated with these bundles will be applied in order to determine revenue of each product included in the bundle. Comcast has not followed ASCs 605 and 606 and has instead made interpretations that vary significantly from the stated process.

ASC 606 was initially issued by the Financial Accounting Standards Board (“FASB”) in May 2014 and was updated and supplemented several times. It was ultimately effective for annual reporting periods after December 15, 2017. While ASC 606 superseded ASC 605, the guidance and methodology from 605 on how to recognize revenue associated with bundle packages and the associated package discount remained mostly the same. ASC 605 explained:

The amendments in this Update will eliminate the residual method of allocation and require that arrangement consideration be allocated **at the inception of the arrangement** to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price.

The amendments in this Update will require that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. The amendments in this Update do not prescribe any specific methods that vendors must use to accomplish this objective; however, examples have been provided to illustrate the concept of estimated selling price and the relative selling price method.

Emphasis added.

Source: Accounting Standards Update No. 2009-13, Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements, page 2.

While the adoption of ASC 605 and ASC 606 is required for financial reporting purposes to the Federal Securities and Exchange Commission (“SEC”), investors and banks, Comcast has gone further and developed software that it refers to as the “Blender” that recalculates every subscriber bill every month for all 20+ million subscribers it serves

nationally in order to push the impact of ASC 605 and ASC 606 down to the determination of gross revenues for all local franchise authorities (“LFAs”).²

The methodology in ASC 605/606 explains that:

1. The discount is computed by comparing the sum of the standalone prices of the products in the bundle to the bundle price.
2. The discount is then allocated to each product based on the standalone price of that product divided by the total of the standalone prices of the bundle components.
3. The revenue associated with each product is then determined by netting the standalone product price and the allocated discount. In the case of franchise fees, the netted cable/video amount should be used in the determination of license fees.

Comcast’s methodology varies from the emphasized language above. Instead of using the prices at the inception of the subscriber’s agreement to take bundle service, Comcast uses the current rate card (advertised) prices of the products. This can lead to a major discrepancy in its calculation. The table below compares bundle rates on bills provided by Comcast in a recent Minnesota matter to the rate card prices used in the Blender analysis.

Bill	Bundle Package	Bundle Rate on Bill	April 2020 Rate
1	X1 Premier Pro Triple Play	159.99	180.00
2	X1 Starter Home Pro Triple Play	99.99	130.00
3	X1 Starter Pro Quad Play	129.99	170.00
4	X1 Starter Home Pro Triple Play	109.99	130.00

Comcast compounds this error by unilaterally determining to include components in the bundle that were not included the bundle price. For example, our analysis in Minnesota identified premium channels that Comcast included in the bundle discount allocation that were not part of the subscriber’s bundle package. This issue was also reflected in the analyses relative to the Town.

However, by far the largest “interpretation” by Comcast, is its inclusion of the Broadcast Television (“BTV”) and Regional Sports Network (“RSN”) fees in the allocation of the bundle discount. Neither of these fees are or were included in the bundle price at inception. Both are separately itemized on the subscriber’s bill and vary independently of the bundle price, i.e. Comcast changes the amount of the BTV and RSN charges on the bill while not changing the contracted bundle price. In the case of the Town, the following

² It should be noted that other cable providers have not pushed the adoption of ASC 605 and ASC 606 down in the determination of franchise fees.

shows the impact overall of Comcast’s Blender analyses and the singular impacts of the treatment of the BTV and RSN fees.

Description	Reduction in Video Revenue	
	2018	2019
Net Change [A]	320,833	175,452
Impact of the BTV interpretation [B]	256,894	305,588
Impact of the RSN interpretation [B]	180,132	225,965

[A] – The net of all reallocations of video revenue to other lines of business.

[B] – Singular impact of these interpretations, which are included as components deriving the Net Change line shown in [A].

Absent the BTV and RSN interpretations, while still incorrectly done, the Blender analyses would have resulted in allocating increased revenues to video.

IMPACT ON SUBSCRIBER BILLS

While the above discusses how Comcast uses the Blender analyses in the determination of franchise fees, it should be noted that Comcast does not reflect any change on the subscriber’s bill relative to ASCs 605/606. The following discussion is based on Comcast’s Blender analyses without adjustment.

Franchise fees are determined on the subscriber’s bill differently than how the Blender determined the payment to the Town, i.e. license fee revenue (amount received from the subscriber) differs from license fee expense (amount paid to the Town). In 2018, this would have meant Comcast collected more from subscribers than it paid the Town. In accordance with a ruling from the Federal Communications Commission (“FCC”), Comcast bills subscribers for the license fee at rates set to recoup what it pays in annual license fees. This rate is adjusted periodically by Comcast, increased or decreased, to reflect over or under-collections of the prior period, typically a year, from subscribers. Comcast has expressed its intent to adjust the rate so that over time the amount of license fee revenue it collects is relatively the same as license fee expense it pays the Town. However, in the meantime, Comcast has use of these overpayments from subscribers. On a national basis, this would be hundreds of millions of dollars. Also, Subscribers who were overcharged in 2018 will not be the same subscribers receiving the credit of the reduced rate in 2019, 2020, 2021 or whenever Comcast balances license fee revenue and expense. As shown in the following analyses of sample bills from the Town, the errors are not consistent between bills and vary from an overcharge of 0.15% to an undercharge of 9.09%.

Bill Date	Bill	License Fees Billed to Sub	License Fees per Comcast Blender Paid to Chelmsford	Difference Paid & Billed [b - a]	License Fees As Corrected by A&S	Difference [b - d]	Percentage Error Over(Under) [e / b]
		a	b	c	d	e	f
07/05/18	1	5.29	5.27	(0.02)	5.47	(0.20)	-3.80%
07/13/18	2	6.90	6.85	(0.05)	6.84	0.01	0.15%
08/16/18	3	9.41	9.38	(0.03)	9.51	(0.13)	-1.39%
08/25/18	4	3.39	3.30	(0.09)	3.60	(0.30)	-9.09%
10/28/18	5	6.26	6.22	(0.04)	6.42	(0.20)	-3.22%
02/19/19	6	5.25	5.11	(0.14)	5.30	(0.19)	-3.72%
02/12/19	7	5.72	5.60	(0.12)	5.90	(0.30)	-5.36%
06/21/19	8	6.38	6.43	0.05	6.57	(0.14)	-2.18%
05/12/19	9	5.89	5.62	(0.27)	6.00	(0.38)	-6.76%
07/21/19	10	7.40	7.31	(0.09)	7.34	(0.03)	-0.41%
Subscriber Franchise Fee Revenue exceeds amount paid to Chelmsford				(0.80)			
Total of Underpaid franchise fees						(1.86)	
NOTE - The above is calculated using Comcast's incorrect method based on standalone prices as of the latest rate card.							

FINDING OF LICENSE FEE UNDERPAYMENTS

Our analyses in this limited review of Comcast’s methodology to implement and push down the impacts of ASCs 605 and 606 to the determination of license fees conclude that Comcast’s methodology is unreliable and provides erroneous results. The reduction in video revenue reported to the Town was \$320,833 in 2018 and \$175,452 in 2019. This resulted in underpayments of license fees of \$16,041.65 in 2018 and \$8,772.61 in 2019. Section 7.1 of the License Agreement states payments are to be made on March 15 for the prior year. Section 7.4, reproduced below, states interest shall be calculated at prime plus 2.0%.

Section 7.4 - LATE PAYMENT

In the event that the License Fees herein required are not tendered on or before the dates fixed in Sections 7.1 above, interest due on such fee shall accrue from the date due at the rate of two percent (2%) above the annual Prime Rate. Any payments to the Town pursuant to this Section 7.4 shall not be deemed to be part of the License Fees to be paid to the Town pursuant to Sections 7.1 and/or 7.2 hereof, and shall be within the exclusion to the term "franchise fee" for requirements incidental to enforcing the Renewal License pursuant to §622(g)(2)(D) of the Cable Act.

Pete Pedulla, Executive Director
Town of Chelmsford TeleMedia Department
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A&S calculated interest charges through September 30, 2020 utilizing the prime rate plus 2.00% is shown below. Interest charges should be recalculated based on when actual payment is expected to be received.

Interest Rates	
Time Period	Prime Rate + 2%
1 st and 2 nd Quarters and July 2019	7.50%
August and September 2019	7.25%
October 2019	7.00%
November and December 2019	6.75%
1 st Quarter 2020	6.75%
April through September 2020	5.25%

Application of these interest rates results in interest as follows: \$1,617.79 for 2018 and \$256.87 for 2019. With the addition of interest, the total due is \$26,688.92 (\$17,659.44 for 2018 and \$9,029.47 for 2019.)

CONCLUSION

The Town should be aware that Comcast is still using the same Blender software in determining the license fee payment due for 2020. The problems identified above would also be present in the 2020 calculation.

Please let us know if you have any questions.

Sincerely,



Garth T. Ashpaugh, CPA
Ashpaugh & Sculco, CPAs, PLC

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