



MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager
VIA: Kathie G. Brooks, Budget and Performance Improvement Director
FROM: James J. Sutter, Internal Auditor

DATE: May 28, 2010
AUDIT: Bus Shelters and Lincoln Road Directories Agreements
PERIOD: October 1, 2005 through December 31, 2008

This report is the result of an audit performed on advertising revenues receipts from two agreements with Clear Channel Adshel for citywide bus shelters and Lincoln Road area directory structures, in accordance with our audit plan.

INTRODUCTION

On April 18, 2001, the Mayor and City Commission authorized the execution of an agreement with Clear Channel Adshel ("Contractor") pursuant to Request for Proposals (RFP) Number 112-99/00 to construct, operate and maintain directory structures in the Lincoln Road area. The executed agreement was for an initial term of five years with the option to renew automatically, at the end of the initial term for five one-year terms. After approval of Resolution 2002-25064 by the Mayor and the City Commission, the terms of the initial agreement were amended on November 13, 2002, to add 10 additional street name signs and one directory structure, as well as to extend the initial term for two years. The contractor agreed to pay the City on a quarterly basis a minimum annual guarantee on an escalating scale.

A similar agreement with this Contractor was executed on October 17, 2001, to construct, operate and maintain bus shelter structures and other street furniture throughout the City, pursuant to a separately issued RFP number 107-99/00. This agreement was for an initial term of ten years commencing on November 1, 2001, with the option to automatically renew for a five year term. The Contractor agreed to pay the City on a quarterly basis a minimum annual guarantee plus a percentage of revenue sharing, both on an escalating scale.

Revenue payments received by the City for the audit period are as follows:

	FY 05-06	FY 06-07	FY 07-08	FY 08-09 (1)	Grand Total
Bus Shelters	\$340,500.02	\$415,146.15	\$404,702.78	\$119,330.50	\$1,279,679.45
Lincoln Road	\$115,014.41	\$146,417.21	\$144,192.48	\$ 27,256.16	\$ 432,880.26
	\$455,514.43	\$561,563.36	\$548,895.26	\$146,586.66	\$1,712,559.71

(1) Amounts represent revenue receipts for only three months (October 2008 – December 2008)

OVERALL OPINION

As a result of our testing during the audit, we were able to confirm that the Contractor is making revenue payments to the City for bus shelters and Lincoln Road area, based on the net revenues received from advertising contracts identified on their quarterly reports; is providing maintenance to street furniture and Lincoln Road directories; and complying with other terms of the agreements. However, results from our testing identified deficiencies in reference to the City's review of the

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accuracy and timeliness of quarterly revenue receipts; inspection and maintenance of bus shelters; and processing of revenue receipts by the Finance Department. Areas identified for corrective action include the following:

1. Revenue payments made by the Contractor for Lincoln Road directory advertising were short of Minimum Annual Guarantees by approximately \$45,283 during the life of the agreement.
2. The Contractor consistently submitted the quarterly revenue payments under both agreements past the established due date, which represents approximately \$8,792 of uncollected late charges for the City.
3. Several bus shelters inspected showed evidence of not being properly maintained by the Contractor, as graffiti was not removed in a timely manner in accordance with the terms of the agreements.
4. The Finance Department does not date-stamp payments when received from the Contractor. Since there are established due dates, the City is failing to require or collect late payment charges due from the Contractor. The accuracy of revenue payments based on percentage guarantees is not being reviewed by Finance. Furthermore, payments received are not being recorded to the EDEN system in a timely manner.
5. The title of the general ledger account used to record revenue receipts from bus shelters and Lincoln Road directory advertising does not properly reflect the use or purpose of the account.

Additional details regarding the above mentioned areas in need of correction have been provided on the Findings, Recommendations, and Management Responses section of this report.

PURPOSE

The purpose of this audit is to determine whether the Contractor is complying with key terms and provisions of their agreements with the City regarding bus shelters and street furniture, and directory structures in the Lincoln Road area.

SCOPE

1. Determine compliance with the key provisions of the two agreements, regarding quarterly revenue receipts, advertising, and insurance coverage, number of shelters / street furniture and directories to be provided for bus shelters, street furniture and Lincoln Road directories.
2. Verify that the Finance Department is reviewing the accuracy and timeliness of revenue receipts, and properly entering them into the City's Financial System.
3. Physically inspect bus shelters, street furniture and Lincoln Road directories to ensure proper maintenance and cleanliness, in accordance with the agreement.

PROCESS DESCRIPTION

Bus shelters and street furniture are constructed or replaced, operated, and maintained as mutually agreed between the City and the Contractor. The agreement for bus shelters and street furniture calls for the installation and maintenance of 107 bus shelters and street furniture to consist of the following: maximum of 180 bus benches; minimum of 25 directory structures; minimum of 300 waste receptacles; minimum of 50 bicycle racks; minimum of 20 multi-purposes pillars; and a minimum of 75 news paper rack. The initial agreement for Lincoln Road Directories specifies the installation and maintenance of 10 directory structures and 10 street and block name signs. A subsequent

amendment added an additional directory structure and 10 more street name signs.

All activities related to revenue generation from advertising are the responsibility of the Contractor, who is to ensure that this is done in compliance with Federal, State, County and City laws, rule and regulations. The City shall receive revenue payments by the 5th day of the month following the end of each quarter, consisting of one quarter of the minimum annual guarantee, plus a percentage of net revenue sharing.

Lincoln Road directory structures were constructed and are being operated and maintained by the Contractor. Similarly, all advertising and compliance with laws, rule and regulations is the responsibility of the Contractor. Revenue payments to the City are also to be submitted by the 5th day of the month following the end of each quarter. These consist of one quarter of the minimum annual guarantee per structure or a percentage of total net revenue for the quarter, whichever is greater.

The Public Works Department, through its Special Projects Coordinator, oversees new construction and/or replacement of bus shelters and street furniture, and Lincoln Road advertising directories. Public Works also monitors contractor's maintenance of these structures, as well as reviews quarterly revenue receipts and insurance coverage required under the terms of the agreement. This specifies that bus shelters and street furniture "shall be maintained in a neat and clean condition and in good repair at all times." The Contractor's maintenance program, included as part of the agreement, describes monthly inspections of these structures, and cleaning on a weekly basis. These include scheduled or instant repair requirements, graffiti and sticker removal, etc.

The Finance Department has the responsibility of ensuring that revenue payments are accurately calculated and received from the Contractor within the established payment timeframe, as well as collect payment of any revenue shortages and late payment fees.

FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

1. Finding – *Revenue payments made by the Contractor for Lincoln Road advertising were short of Minimum Annual Guarantees.*

At the time the agreement between the City and the Contractor was signed for Lincoln Road directory structures in April 2001, these directory structures were not in place. When the initial agreement was amended on November 2002, the initial term was extended from five to seven years, but the amendment specifically stated that the commencement date remained the same or April 18, 2001. The Contractor agreed to pay the City the greater of an annual amount per structure or a percentage of net advertising revenues, as summarized below:

YEAR	Net Revenues
1	20 %
2-3	25 %
4-5	28 %
6-7	30 %
8-12 (extension)	30 %

According to the Contractor, there were no advertising revenues until January 2003, since the structures were in the development and construction phases, and the first revenue payment was made for the quarter ending March 31, 2003. This payment was calculated based on the

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net revenue percentage for Year 1 (20 %) instead of the percentage for Year 2 (25 %). According to our calculations (see *Exhibit A*), the impact of the Contractor's interpretation for the first contract year represents a shortage of \$47,236 in revenue payments to the City. It should be noted that the Special Projects Coordinator in the Public Works Department made an inquiry to the Contractor on July 2007, regarding the discrepancy of revenue percentages in the payment calculation, but there was no follow-up to the response provided by the Contractor. The Contractor contended that when the contract was signed, the Lincoln Road directories did not exist and no revenues were being generated; that an amendment to the original agreement adjusted the contract start date from April 18, 2001 to November 15, 2002; and that Clear Channel started receiving revenues in January 2003, at which time they began following the revenue percentage sharing with the City.

Recommendation(s)

Since the Contractor is calculating quarterly revenues due to the City based on an incorrect contract start date, the terms of the agreement and subsequent amendment, should be brought to their attention, specifically the fact that the commencement date of the agreement remained as April 18, 2001, as stated on page 2 of the amendment to the agreement executed November 13, 2002. In conjunction with this, the City should inform the Contractor of the revenue shortage amount for the Lincoln Road directories and request payment of revenues due.

Contractor's Response

Here is the correspondence from our July 2007 response mentioned above, which remains our point of contention. Please note that since we did not receive a reply, we believed that the issue was resolved.

Hi Leo,

We have reviewed your comments below and looked into the issue. We don't agree with your assessment due to the following reasons:

- 1. The Lincoln Road Directories were not in existence when we entered into the contract, thus no revenue was generated during the development and build-out period. The directories were still to be designed, manufactured, and installed. In addition, shortly before construction start, the city changed their previous instructions regarding permitting, which added some more time to it.*
- 2. While the agreement is dated April 18, 2001 the City and our company agreed in Nov 2002 to adjust the contract start date to 11/15/02 due to the facts listed above.*
- 3. We then had to develop the business (i.e. market the opportunity to the advertising industry, create sales demand, etc.) and did not have any revenues until January 1, 2003. From then on, we followed the revenue percentage share exactly as listed in the agreement. We believe that we have made all payments correctly.*

Please let me know how we can further be of assistance or if you wish to discuss this matter.

*Regards,
Martina*

City's Response (Public Works)

Contractor will be notified to pay balance due. The agreement, dated November 13, 2002, extended the contract by two years, but it did not change the start date. The agreement

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extended the contract by two years in consideration of ten additional street name signs and one additional two-sided directory structure to be placed at the intersection of James Avenue and Lincoln Road, at no cost to the City.

Although Clear Channel did not generate revenue during the development and construction period, the contract start date remained April 18, 2001. Therefore, the City's percentage of total net revenues also begins with the contract's start date.

2. Finding – *The Contractor consistently submitted late quarterly revenue payments.*
Both agreements with the Contractor state that the City shall receive revenue payments no later than the fifth day of the month after the close of the quarter. The agreements also state that payments not made on or before the due date shall be subject to interest at a rate of 12 % per annum, from the payment due date until the time the payment is received by the City. We found that throughout the life of both agreements, the Contractor has consistently submitted the payments late. For the calculation of late charges, we used the number of days from the due date to the date the Contractor sent the payment, since the Finance Department does not date stamp payments when received. The total of uncollected charges for late revenue payments amounts to \$8,792, consisting of \$2,234 for the agreement on Lincoln Road directory structures since April 2003 (see *Exhibit A*), and \$6,558 for payments on the bus shelter agreement since November 2002 (see *Exhibit B*).

Recommendation(s)

The Contractor should be informed and billed for the uncollected charges due to the City on late revenue payments during the life of both agreements. If the City and Contractor feel that the five day payment requirement is not feasible for these types of agreements, then consideration should be given to amend the established due dates within the agreements.

Contractor's Response

The President of Clear Channel Adshel, had a personal conversation with the Public Works Director very early in the contract period when we realized that the payment date should have been much later than the 5th of the month. It was mutually agreed that it wasn't physically possible to close the monthly books, reconcile revenue and cut a check and have it received by the City, all by the 5th of the month. We both felt that this must have been a typo and should have been the 25th, or at least the 15th. We then asked the contract be changed to reflect a more realistic date and to prevent exactly what is happening now. The Public Works Director said that in order to do that we would have to go before the City Commission and he requested not to go before them for this. It was verbally agreed that we would send the payment as soon as we could, following the end of each quarter.

City's Response (Public Works)

The Contractor will be advised that the payment due date remains the same. However, the Contractor will also be advised that the City is willing to consider modifying the due date based upon a review of the process required to calculate the amount due to the City.

Internal Audit Observation

Collection of late fees should be addressed with the contractor for both agreements. In addition, any changes to the agreement should be approved by the City Commission.

3. Finding – *Bus Shelters are not maintained as required by the agreement.*
We selected a sample of 20 bus shelters of the 100 identified by the Public Works Department and a current maintenance report summary prepared by the Contractor. The shelters were

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initially visited on March 24, 2009 through March 25, 2009 to inspect them for adequacy of advertising display contents, accessibility, cleanliness/appearance, and public safety. A follow-up inspection was done several days later on April 3, 2009, to allow time for maintenance work to be done on those shelters where deficiencies were observed during the initial inspection. We found eight shelters that had not received adequate maintenance by the Contractor to remove graffiti on the glass panels, and painted or metal surfaces. The Contractor's maintenance program requires the cleaning of bus shelters and street furniture structures, including graffiti removal, to be done weekly. One of the bus shelters inspected is in a poor state of repair, missing the back panels of the structure. The improper appearance of bus shelters and street furniture presents a negative image of the City. We also inspected all Lincoln Road directory displays for advertising content and appearance; these were all adequate.

Recommendation(s)

The Contractor should comply with their maintenance program for the proper maintenance and appearance of the bus shelters. We also recommend that the City periodically conduct their own inspections of these structures and street furniture to ensure the Contractor is complying with their obligations under the agreement.

Contractor's Response

Currently, Clear Channel Outdoor is in the final stages of completing the street furniture program. Within this program we are obtaining new bus shelter sites along with converting all existing structures to the new design. In 2009, a program was implemented to repaint and replace the glass of the structures pending conversion to the new design. The manufacturer, Daytech, of the old style units is no longer in business and replacement parts for this particular model are nonexistence. We make every effort to maintain these old units with existing materials until we have the opportunity to complete the conversions. The bus shelters are maintained on a weekly basis and on occasion, we are notified by the Public Works Department of various maintenance issues, which are addressed and repaired within a 24 hour period.

City's Response (Public Works)

The Public Works Department performs periodic inspections to verify compliance with the agreement. When deficiencies are found, they are communicated to the Contractor for correction. The Public Works Department has increased the frequency of its 2009/10 fiscal year inspections to address cleanliness and graffiti issues.

4. Finding – *Quarterly revenue receipts are not being processed in a proper or timely manner.*
The Contractor submits quarterly payments for advertising revenues due for bus shelters (customer # C12269) and Lincoln Road directories (customer # C12269A) to the Revenue Supervisor in the Finance Department. Financial Analysts in the Department prepare payment vouchers with the information received from the Contractor (transmittal letter, quarterly revenue reports, and check payments) and include the date they process the payments. However, none of these documents are being stamped to evidence date received. Although the payment due date and the revenue guarantee terms are detailed on the payment voucher, the Finance Department does not take any action when these requirements are not met by the Contractor. Both agreements require revenue payments to be received on or before the 5th day of the month following the close of a quarter. Additionally, these revenue payments are not being recorded on the City's Financial System in a timely manner, since the posting date ranges from 5 to 63 days for customer C12269 and from 3 to 50 days for customer C12269A.

Recommendation(s)

The Finance Department should date-stamp payment correspondence from the Contractor to accurately document when these are received. This date should be reflected on the payment vouchers prepared by the Financial Analyst(s). The terms of the agreements regarding due date should be verified by Finance, and any discrepancies identified should be addressed accordingly.

City's Response (Finance)

The Finance Department will date-stamp payment correspondence from the Contractor to document when payments are received. The date will be reflected on the payment vouchers prepared by the financial analyst responsible for recording these transactions. The Finance Department Collections Supervisor along with the Contract Manager from the Public Works Department will monitor payments from the Contractor and address late payments accordingly.

5. Finding – General Ledger account is incorrectly titled.

The title for general ledger account # 011-8000-362400 - Rent-Bus Shelters-Taxable - does not properly reflect the purpose and use of this account, since revenues received for Bus Shelters, as well as Lincoln Road directories are posted to the account. Additionally, these revenues are not taxable, although both agreements state that payments submitted by the Contractor were to include applicable Florida State Sales and Use taxes. It appears that tax payments were being initially sent together with the revenue payments. However, since February 2003, the Contractor informed the City that advertising revenues were not taxable by the State. The City acknowledged and agreed with the Contractor on this issue.

Recommendation(s)

The Finance Department should evaluate whether it wants to continue posting Lincoln Road area advertising revenues to the same general ledger account set up for bus shelters revenues, or modify the account title to properly reflect the two areas. In addition, the title's reference to taxable should be removed.

City's Response (Finance)

The reference in the general ledger title to "taxable" has been removed. Currently, Finance Department Revenue staff record Lincoln Road area advertising revenues to the same general ledger account set up for bus shelters revenues as originally requested by staff managing the contracts. Revenue staff will coordinate, with the Public Works Department and Chief Accountant's Office, to create an additional general ledger account to separately record the revenues for the aforementioned activities. Accounts were added May 12, 2010.

EXIT CONFERENCE

An exit conference call was held on January 19, 2010 with Paul Newman, Vice President of Finance, Clear Channel Outdoor - Miami, James Sutter, Internal Auditor and Luis Lopez, Audit Consultant. Their written management responses were received on February 11, 2010 whereby they disagreed to findings one and two and stated their position. Finally, management responses were received from affected City departments on March 20, 2010 and May 27, 2010 so that the audit report could be issued shortly thereafter.

JJS:LL:ll

Audit performed by Luis López, Internal Audit Contractor

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cc: Jorge Gomez, Assistant City Manager
Fred Beckman, Public Works Director
Fernando Vazquez, City Engineer
Patricia D. Walker, Chief Financial Officer
Paul Newman, Vice President of Finance, Clear Channel Outdoor - Miami.

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Exhibit A – Lincoln Road Advertising

Period	Revenue	Contract Year(s)	% Guarantee	(1)	(2)		Difference	Date Paid	Days Late	(4) Late Charge	
				CCA Year	% Paid	Payment Due					Payment Sent
4/18/01-4/30/02		1	20%				0.00				
May-Dec 02		2	25%				0.00				
Jan 03-Mar 03	50,965		25%	1	20%	12,741	10,193	2,548	04/15/03	10	34
Apr 03-Jun 03	68,240	2 & 3	25%		20%	15,691	12,279	3,412	07/16/03	11	44
Jul 03-Sep 03	95,860	3	25%	1	20%	23,965	19,172	4,793	10/17/03	12	76
Oct 03-Dec 03	55,698		25%		20%	13,925	11,140	2,785	01/14/04	9	33
Jan 04-Mar 04	46,150	3	25%	2	25%	10,897	10,897	(3)	04/13/04	8	29
Apr-04	22,325		25%		25%	5,581	17,900	1,478	07/15/04	10	59
May 04-Jun 04	49,275	4	28%	2	25%	13,797					
Jul 04-Sep 04	68,300		28%		25%	19,124	17,075	2,049	10/13/04	8	45
Oct 04-Dec 04	65,074	4	28%	2	25%	18,221	16,269	1,952	Reports not available (*)		
Jan 05-Mar 05	77,700		28%		25%	21,756	19,425	2,331	04/14/05	9	57
Apr 05-Jun 05	98,300	4 & 5	28%	3	25%	27,524	24,575	2,949	07/14/05	9	73
Jul 05-Sep 05	96,550	5	28%		25%	27,034	24,138	2,896	10/13/05	8	63
Oct 05-Dec 05	90,900		28%	25%	25,452	22,725	2,727	01/17/06	12	90	
Jan 06-Mar 06	96,480	5	28%	4	28%	27,014	27,014	(3)	04/20/06	15	133
Apr-06	38,800		28%		28%	10,864	28,308	1,246	38,918.00	15	140
May 06-Jun 06	62,300	6	30%	4	28%	18,690					
Jul 06-Sep 06	134,950		30%		28%	39,667	36,967	2,700	10/30/06	25	304
Oct 06-Dec 06	131,525	6	30%	4	28%	39,458	36,827	2,631	01/17/07	12	145
Jan 07-Mar 07	129,007		30%		28%	38,702	36,122	2,580	04/17/07	12	143
Apr 07-Jun 07	125,877	6 & 7	30%	5	28%	37,110	34,593	2,517	07/19/07	14	159
Jul 07-Sep 07	138,842	7	30%		28%	41,653	38,876	2,777	10/18/07	13	166
Oct 07-Dec 07	143,187		30%	28%	42,956	40,092	2,864	01/15/08	10	132	
Jan 08-Mar 08	126,085	7	30%	6	30%	37,826	37,825	(3)	04/14/08	9	112
Apr 08-Jun 08	125,056		7 & 8		30%	30%	37,517	37,517	(3)	07/10/08	5
Jul 08-Sep 08	98,137	8	30%	6	30%	28,758	28,758	(3)	10/10/08	5	47
Oct 08-Dec 08	90,854		30%		30%	27,256	27,256	(3)	01/15/09	10	90

\$ 47,236

\$ 2,234

- (1) Contract year used by Clear Channel Adshel (CCA) in revenue sharing calculations.
- (2) Payment due and sent amounts are net of costs for maps and mall directories.
- (3) No difference is noted due to percentage rate guaranteed to percentage rate paid being equal.
- (4) Late Charge is calculated based on payment sent, 12% per annum, days late and 365 year base.
- (*) Quarterly revenue was estimated based on payment amount posted to EDEN.

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Exhibit B – Bus Shelters

Period	Amount Guarantee	Revenues	Revenue Sharing		Payment Due	Payment Sent	Other Pmts or Credits	Date Paid	Days Late	(*) Late Charge	
			%	Amount							
Nov 01-Jan 02	15,000	Reports Not Available	10%	Reports Not Available							
	15,000		10%								
May-Jul 02	15,000		10%								
Aug-Oct 02	15,000	262,585	10%	26,259	41,259	26,259	16,707	11/20/02	15	129	
Nov 02-Jan 03	30,000	220,660	10%	22,066	52,066	22,066	30,000	02/18/03	13	94	
Feb-Apr 03	30,000	270,578	10%	27,058	57,058	57,058		05/13/03	8	150	
May-Jul 03	30,000	260,901	10%	26,090	56,090	40,753	15,337	Reports Not Available			
Aug-Sep 03	20,000	106,182	10%	10,618	30,618	6,526	(24,092)	10/27/03	22	47	
Oct-Dec 03	30,000	267,978	10%	26,798	56,798	50,096	(6,702)	01/15/04	10	165	
Jan-Mar 04	30,000	222,200	10%	22,220	52,220	52,220		04/13/04	8	137	
Apr-Jun 04	30,000	300,407	10%	30,041	60,041	60,041		07/15/04	10	197	
Jul-Sep 04	30,000	286,374	10%	28,637	58,637	58,637		10/13/04	8	154	
Oct 04	30,000	85,909	10%	8,591	73,940	62,157	11,783	01/13/05	8	163	
Nov -Dec 04		235,660	15%	35,349							
Jan-Mar 05	30,000	254,430	15%	38,165	68,165	68,164		04/14/05	9	202	
Apr-Jun 05	30,000	277,748	15%	41,662	71,662	71,662		07/14/05	9	212	
Jul-Sept 05	30,000	329,467	15%	49,420	79,420	79,420		10/13/05	8	209	
Oct-Dec 05	30,000	418,665	15%	62,800	92,800	92,800		01/17/06	12	366	
Jan-Mar 06	30,000	354,481	15%	53,172	83,172	83,172		04/20/06	15	410	
Apr-Jun 06	30,000	385,531	15%	57,830	87,830	87,830		07/20/06	15	433	
Jul-Sep 06	30,000	311,323	15%	46,698	76,698	76,699		10/28/06	23	580	
Oct 06	30,000	204,264	15%	30,640	106,566	95,084	11,482	01/17/07	12	375	
Nov-Dec 06		229,630	20%	45,926							
Jan-Mar 07	30,000	216,279	20%	43,256	73,256	73,256		04/17/07	12	289	
Apr-Jun 07	30,000	512,547	20%	102,509	132,509	132,509		07/19/07	14	610	
Jul-Sep 07	30,000	364,077	20%	72,815	102,815	102,815		10/18/07	13	439	
Oct-Dec 07	30,000	451,823	20%	90,365	120,365	120,365		01/15/08	10	396	
Jan-Mar 08	30,000	243,540	20%	48,708	78,708	78,708		04/14/08	9	233	
Apr-Jun 08	30,000	478,251	20%	95,650	125,650	125,650		07/10/08	5	207	
Jul-Sep 08	30,000	249,901	20%	49,980	79,980	79,980		10/10/08	5	131	
Oct-Dec 08	50,000	346,653	20%	69,331	119,331	69,331	50,000	01/15/09	10	228	

\$ 6,558

(*) Late Charge is calculated based on payment sent, 12% per annum, days late and 365 year base.