



Internal Audit Report

Lease & Concession Audit

Dilettante Chocolates Inc.

June 1, 2010 – May 31, 2013

Issue Date: August 6, 2013

Report No. 2013-14

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Transmittal Letter

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the lease and concession agreement with Dilettante Chocolates Inc.

We reviewed information relating to the lease and concession agreement with Dilettante from June 1, 2010 through May 31, 2013.

We conducted the audit 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 perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to the staff of Aviation Business Development and Accounting and Financial Reporting for their assistance and cooperation during the audit.



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Executive Summary

Audit Scope and Objective The purpose of the audit was to determine whether:

1. The reported concession revenue is complete, properly calculated, and remitted timely.
2. The lessee complied with significant provisions of the lease and concession agreement.

The scope of our audit covered the period from June 1, 2010 through May 31, 2013.

Background Dilettante Chocolates operates a location in the central terminal at the SeaTac Airport. Their product line consists of crafted chocolates, blends of coffee, desserts, truffles and confectionary gift items.

Dilettante entered into the current lease and concession agreement with the Port of Seattle on March 2, 2004, for a 10-year term ending May 31, 2015.

The agreement provides for a specific concession based on gross receipts at tiered rates, ranging from 8% to 14%. There are provisions for finance charges and interest if the payment is not received within a ten-day grace period.

Audit Result Summary Concession revenue reported by Dilettante was reported completely, calculated properly and remitted timely. Dilettante materially complied with significant provisions of the lease and concession agreement.

Background

Dilettante Chocolates was founded in 1976 in downtown Seattle. Their product line consists of crafted chocolates, blends of coffee, desserts, truffles and confectionary gift items. Including operations in the SeaTac Airport location at the central terminal, Dilettante has six (6) local retail locations in the region.

Dilettante entered into the current lease and concession agreement with the Port of Seattle on March 2, 2004 for a 10-year term ending May 31, 2015.

The lease and concession agreement states that the Minimum Annual Guarantee (MAG) payments are due on the first of each month. The percentage concession fee is due on the 15th of the following month, along with a statement of gross receipts for the previous month according to the following schedule:

Concession Categories	Gross Receipt %
YTD* Gross Receipts less than \$300,000	8%
YTD* Gross Receipts \$300,000 - \$400,000	12%
YTD* Gross Receipts greater than \$400,000	14%

Note*: Indicates Year-to-Date

The agreement provides for finance charges and interest if a payment is not received within a ten-day grace period.

The table below summarizes the concession revenue received from Dilettante for the audit period.

Concession Term	Gross Revenues	Concession Paid
June, 2010 to May, 2011	\$1,528,049	\$237,503
June, 2011 to May, 2012	\$1,565,574	\$243,777
June, 2012 to May, 2013	\$1,558,850	\$237,626
Total	\$4,652,473	\$718,906

Source: PROPWorks

Audit Scope and Methodology

We reviewed information for the period from June 1, 2010 to May 31, 2013. We utilized a risk-based audit approach from planning to testing. We gathered information through research, interviews, observations and analytical reviews, in order to obtain a complete understanding of the Dilettante lease and concession agreement.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

1. Completeness of reported revenue

We reviewed lessee's financial records including point-of-sale data, general ledger, bank records, and Washington State Business and Occupation tax (B&O tax) records along with the

reported revenues to the Port. We selected sales from the month of August 2011 and June 2012 for testing procedures. We traced the revenue from the point-of-sale to the general ledger, to deposited records, to B&O tax records, and to the revenues Dilettante reported to the Port.

2. Timely submission of rent and concession payments

We reviewed the Port's records to determine whether the rent and concession payments were received on time. In the event that payments were received later than the ten-day grace period allowed, in the agreement, we calculated the expected interest and finance charges, if not previously assessed.

3. Compliance with insurance requirements

We identified the insurance coverage required by the agreement for the audit period and determined whether the lessee had obtained sufficient coverage and submitted evidence to the Port in accordance with the agreement.

4. Compliance with annual reporting requirements

We identified the annual reports required by the agreement for the audit period and determined whether the lessee had submitted the reports to the Port in accordance with the agreement.

5. Compliance with surety requirements

We identified the security coverage required by the agreement for the audit period and determined whether the lessee had obtained sufficient coverage and submitted evidence to the Port in accordance with the agreement.

Conclusion

Concession revenue reported by Dilettante was reported completely, calculated properly and remitted timely. Dilettante materially complied with significant provisions of the lease and concession agreement.