

INTERNAL AUDIT REPORT

ANTON AIRFOOD (dba Anthony's at Sea-Tac)
LEASE AND CONCESSION AGREEMENT

JULY 1, 2011 - JUNE 30, 2014

ISSUE DATE: OCTOBER 21, 2014
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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed a compliance audit of Anton Airfood Lease and Concession Agreement. We reviewed information for the period July 1, 2011 - June 30, 2014.

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 management and staff of the Aviation Business Development Department and Accounting and Financial Reporting for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Jack Hutchinson, Audit Manager	Jim Schone, Director - Aviation Business Development
	Deanna Zachrisson, Manager - Aviation Properties Group

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether:

1. The reported concession fees were complete, properly calculated, and remitted timely to the Port.
2. The Port and lessee complied with significant provisions of the Lease and Concession Agreement, as amended.

We reviewed information for the period July 30, 2011 - June 30, 2014. Details of our audit's scope and methodology are on page 5.

BACKGROUND

Anton Airfood, a subsidiary of HMSHost North America, Inc., operates two restaurants in the airport's central terminal under license from Anthony's Restaurants: 1) Anthony's at SeaTac Airport and 2) Anthony's Fish Bar.

The agreement called for a 10-year term beginning in March 2003, with an option for two five-year extensions at the Port's discretion. The agreement calls for a minimum annual guarantee of 85% of the prior year's reported concession fees and a monthly concession payment of 8% of gross receipts.

AUDIT RESULT

The reported concession fees were complete, properly calculated, and remitted timely to the Port. Anton Airfood complied with significant provisions of the Lease and Concession Agreement.

BACKGROUND

Anton Airfood, a subsidiary of HMSHost North America, Inc., operates two restaurants in the airport's central terminal, under license from Anthony's Restaurants:

- Anthony's at Sea-Tac Airport - an informal sit-down restaurant and lounge based on Anthony's eponymous restaurants located at Bell Street Marina at Pier 66 and Fishermen's Terminal in Ballard.
- Anthony's Fish Bar - a quick-serve/to-go restaurant based on the Anthony's 'Fish Bars' in operation at Pier 66 and Fishermen's Terminal. Anton Airfood operates two distinct concepts under Agreement No. 000374.

The agreement called for a 10-year term beginning in March 2003, with an option for two five-year extensions at the Port's discretion. The agreement calls for a minimum annual guarantee of 85% of the prior year's reported concession fees and a monthly concession payment of 8% of gross receipts.

FINANCIAL HIGHLIGHTS

ANTON AIRFOOD GROSS REVENUES AND CONCESSION TO THE PORT

AGREEMENT YEAR	REPORTED GROSS REVENUES	CONCESSION REVENUE
2011-2012	\$12,275,418	\$982,033
2012-2013	\$13,068,095	\$1,045,448
2013-2014	\$13,426,181	\$1,074,094
TOTAL	\$38,769,694	\$3,101,575

Data Source: PeopleSoft Financials

AUDIT SCOPE AND

We reviewed information for the period July 1, 2011 - June 30, 2014. We utilized a risk-based audit approach from planning to testing. We gathered information through document requests, inquiries, observations, and data analysis, in order to obtain a complete understanding of the financial requirements of the agreement between the Port of Seattle and Anton Airfood.

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

1. To determine whether the reported concession fees were complete, properly calculated, and remitted timely to the Port.
 - Reviewed the lessee's chart of accounts to ensure all revenue accounts were reported.
 - Reviewed and reconciled the lessee's daily sales rerecord to the reported concession revenues.

- For a sample of six months, reconciled the reported revenues to point-of-sales records to ensure:
 - All concession items transacted at the register were properly and completely reported.
 - Disallowed deductions did not reduce concession revenues.
 - For a sample of 15 days, reconciled the reported cash sales to bank statements to ensure all cash sales were properly and completely reported.
 - Reviewed third-party voucher and gifts card transactions to ensure they were properly and completely included in the reported revenues.
 - Reviewed all payment records for the audit period for compliance with the required due date.
2. To determine whether the lessee complied with significant provisions of the Lease and Concession Agreement, as amended.
- Reviewed the Certified Statement of Gross Revenues for compliance with the timely and complete submission requirements.
 - Reviewed required insurance coverage in force for the audit period.

CONCLUSION

The reported concession fees were complete, properly calculated, and remitted timely to the Port. Anton Airfood complied with significant provisions of the Lease and Concession Agreement.