



# INTERNAL AUDIT REPORT

LEASE AND CONCESSION AGREEMENT AUDIT

MAD ANTHONY'S, INC. dba  
ANTHONY'S BELL STREET PIER 66 AND CHINOOK'S  
FISHERMEN'S TERMINAL

JANUARY 1, 2014 – DECEMBER 31, 2015

ISSUE DATE: OCTOBER 10, 2016  
REPORT NO. 2016-14

## EXECUTIVE SUMMARY

### AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether Port management monitoring controls are adequate and effective to ensure:

1. Mad Anthony's, Inc. reported concession fees were complete, properly calculated, and remitted timely to the Port.
2. Mad Anthony's, Inc. complied with significant financial provisions of the agreement.

We reviewed and analyzed records for the Agreement period January 1, 2014 - December 31, 2015.

Details of our audit's scope and methodology are on page six.

### BACKGROUND

Lease Agreements No. 294 and No. 43 authorize Mad Anthony's, Inc. to operate restaurants at Bell Street Pier 66 and Fishermen's Terminal.

The terms of the agreements provide for fixed Minimum Rent. The agreements also require additional Percentage Rent from gross sales of food and beverage, alcohol beer and wine, and any other sales. Percentage Rent thresholds for gross sales are adjusted annually by the annual percentage change in the "food and beverage component" of the United State Consumer Price Index (CPI) for the Seattle-Everett area.

### AUDIT RESULT

Port management monitoring controls were reasonably effective to ensure the Lessee materially complied with the terms of the Lease and Concession Agreement, as amended. Mad Anthony's reported Concession Fees were materially complete, properly calculated, and remitted timely to the Port.

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## TRANSMITTAL LETTER

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of the Mad Anthony's, Inc. doing business as Anthony's Bell Street Pier 69 and Chinook's Fishermen's Terminal. We reviewed information for the period January 1, 2014 - December 31, 2015.

We conducted this 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 of 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 Port management and staff for their assistance and cooperation during the audit.



On behalf of  
Joyce Kirangi, CPA, CGMA  
Director, Internal Audit

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Margaret Songtantaruk, Senior Auditor	Dave McFadden, Managing Director Economic Development
Jessica Martin-Carscadden, Audit Manager	Melinda Miller, Director, Portfolio and Asset Management
	Rudy Caluza, Director Accounting and Financial Reporting

## BACKGROUND

Lease Agreements No. 294 and No. 43 authorize Mad Anthony's, Inc. to operate restaurants at Bell Street Pier 66 and Fishermen's Terminal.

The terms of the agreements provide for fix Minimum Rent. The agreements also require additional Percentage Rent from gross sales of food and beverage, alcohol beer and wine, and as well as any other sales. Percentage Rent thresholds for gross sales are to be adjusted annually by the annual percentage change in the "food and beverage component" of the United State Consumer Price Index (CPI) for the Seattle-Everett area. Percentage rent is scaled as follows:

- Equal to 6% of gross sales up to the first CPI adjusted breakpoint and 6.25% in excess of the breakpoint for Bell Street Pier 66 restaurant.
- Equal to 6.25% of gross sales up to the first CPI adjusted breakpoint and 8% in excess in of the breakpoint for Fishermen's Terminal Restaurant.

## FINANCIAL HIGHLIGHTS

### REPORTED GROSS RECEIPTS AND CONCESSION – PIER 66

AGREEMENT YEAR	REPORTED GROSS REVENUES	ANNUAL MINIMUM RENT	PERCENTAGE RENT	TOTAL RENT
2014	\$6,637,466	\$368,040	\$30,208	\$398,248
2015	6,888,602	368,040	45,276	413,316
<b>TOTAL</b>	<b>\$13,526,068</b>	<b>\$736,080</b>	<b>\$75,484</b>	<b>\$811,564</b>

Data Source: Propworks and PeopleSoft

### REPORTED GROSS RECEIPTS AND CONCESSION – FISHERMENS' TERNIMAL

AGREEMENT YEAR	REPORTED GROSS REVENUES	ANNUAL MINIMUM RENT	PERCENTAGE RENT	TOTAL RENT
2014	\$6,660,194	\$339,479	\$80,889	\$420,368
2015	6,081,214	338,929	112,196	451,125
<b>TOTAL</b>	<b>\$13,741,408</b>	<b>\$678,408</b>	<b>\$193,085</b>	<b>\$871,493</b>

Data Source: Propworks and PeopleSoft

## AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2014 - December 31, 2015 utilizing a risk-based approach from planning to examination. We gathered information through document requests, research, interviews, observations, and data analysis. We obtained an understanding of the significant provisions of the agreements between the Port of Seattle and Mad Anthony's Inc. and the respective operations.

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

1. Determine whether Port management monitoring controls are adequate and effective to ensure reported Concession fees were, properly calculated, and remitted timely to the Port. We:
  - Reviewed the Lessee's chart of accounts to determine whether all revenue accounts were included in the revenues reported to the Port.
  - Validated reported Gross Sales agreed to Point of Sales data.
  - Reconciled the reported revenue to Lessee's general ledger and financial statement by revenue category.
  - Tested a risk-based sample of:
    - Twenty-four months of sales to determine if employee meal deductions were valid.
    - Three-month reported gross revenues were agreed with B&O tax return.
    - One week of Point-of-Sale (POS) data were agreed with bank deposit.
  - Analyzed Port records to determine the timeliness of submitted Minimum Rent and Percentage Rent Payments.
  
2. Determine whether Mad Anthony's, Inc. complied with significant financial terms of the Lease and Concession Agreement, as amended. We reviewed the:
  - Agreement to identify significant financial compliance requirements.
  - Insurance coverage and surety company bond to ensure amounts complied with lease terms.
  - The correct Consumer Price Index (CPI) was obtained and used to properly calculate the change in breakpoint for Percentage Rent.

## CONCLUSION

Port management monitoring controls were reasonably effective to ensure the Lessee materially complied with the terms of the Lease and Concession Agreement, as amended. Mad Anthony's reported Concession Fees were materially complete, properly calculated, and remitted timely to the Port.