



Internal Audit Report

Food System Unlimited, Inc.
DBA/Maki of Japan Oriental Eatery

Lease and Concession Compliance Audit

June 1, 2008 through May 31, 2011

Issue Date: November 1, 2011
Report No. 201-23



Internal Audit
Food System Unlimited, Inc. (DBA/Maki of Japan Oriental Eatery)
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Transmittal Letter

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the Lease and Concession Agreement, as amended, between the Port of Seattle and Food System Unlimited, Inc. (DBA/Maki of Japan Oriental Eatery). The purpose of the audit was to determine whether:

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

We examined information related to a three-year period from June 1, 2008, through May 31, 2011.

We conducted the audit in accordance with Generally Accepted Government Auditing Standards (commonly referred to as the Yellow Book). 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.

Maki of Japan Oriental Eatery materially complied with the terms of the Lease and Concession agreement, as amended.

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

Yours truly,



Joyce Kirangi, CPA
Director, Internal Audit

Executive Summary

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

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

This is our first audit of Maki of Japan Oriental Eatery. We examined the books and records for a three-year period from June 1, 2008 through May 31, 2011. Aviation Business Development, in conjunction with Accounting and Financial Reporting (AFR), has the primary responsibility for administering and monitoring the agreement to ensure compliance with agreed-upon terms.

Agreement Terms The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 85% of the total amount paid to the Port in the previous agreement year, provided that it is not less than \$165,000. Additionally, the agreement requires a Percentage Fee to be paid to the extent that the Percentage Fee exceeds the MAG in accordance with the following structure:

- 14% -- gross receipts less than \$1,250,000
- 16% -- gross receipts greater than \$1,250,001 but less than \$1,500,000
- 18% -- gross receipts greater than \$1,500,000

The following are the only agreed-upon deductions allowed in the agreement:

- a. Tips paid to employees
- b. Refunds actually granted and adjustments actually made
- c. Complimentary meals, discounts actually granted, and meals to its employees
- d. Taxes collected as agent for the taxing body

The MAG is payable in advance, on or before the first day of each month, without notice from the Port. The percentage fee, if applicable, is due on or before the 15th of the following month.

For untimely payments, the agreement provides for a one-time late fee of 5% of the overdue amount and finance charges to be accrued at the rate of 18% per annum from the due date until paid.

Audit Result Summary Maki of Japan Oriental Eatery materially complied with the terms of the Lease and Concession agreement, as amended. We noted no discrepancies with the reported concession revenues.

Background

Food System Unlimited, Inc. is a concept restaurant that began its operations in Orlando, Florida in 1991. The company operates in the food courts at the malls and airports around the nation, including a location at the Seattle Tacoma International Airport. This is our first audit of this lease and concession.

The company operates a location at the Sea-Tac International Airport in the Central Terminal as Maki of Japan Oriental Eatery.

The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 85% of the total amount paid or payable to the Port in the previous agreement year. Additionally, the agreement requires a Percentage Fee to be paid to the extent that the Percentage Fee exceeds the MAG in accordance with following structure:

- 14% -- Gross receipts less than \$1,250,000
- 16% -- gross receipts greater than \$1,250,001 but less than \$1,5000,000
- 18% -- gross receipts greater than \$1,5000,000

The MAG is payable in advance, on or before the first day of each month, without notice from the Port, and without setoff or deduction. The Percentage Fee, if applicable, is due on or before the 15th of the following month.

For untimely payments, the agreement provides for a one-time late charge of 5% of the overdue amount and interest to be accrued at the rate of 18% per annum from the due date until paid.

Below are the financial highlights for the last three fiscal years:

Fiscal Year	Reported Gross Revenue	Paid Concession
2008-2009	\$2,616,594	\$418,153
2009-2010	2,551,050	415,987
2010-2011	2,656,797	404,189
Total	\$7,824,441	\$1,238,329

Source: PROPWorks and PeopleSoft

Audit Objective

The purpose of the audit was to determine the following:

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

Audit Scope and Methodology

The scope of the audit covered the period of June 1, 2008, through May 31, 2011.

We conducted the audit to determine whether the lessee was in compliance with the lease agreement terms including, but not limited to, proper concession payments. The audit approach was risk-based from planning to test sampling. We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

- Timely Payment
- Insurance liability
- Surety Bond/Security Deposit
- CPA certified Annual Report
- Concessionable revenue

a. Timely Payment

We reviewed payment records to determine whether the lessee complied with the required due date.

b. Insurance Liability

To determine compliance with insurance requirements, we reconciled insurance requirements to the coverage reflected in the certificate of insurance in force for the audit period.

c. Surety Bond/Security Deposit

We reviewed and agreed surety requirements as stipulated in the agreement to document submitted by the lessee to determine compliance.

d. Certified Annual Report

We reviewed the annual certifications for the audit period to determine whether the certification was submitted timely and completely to the Port.

e. Concession Revenue

To determine whether the lessee completely reported all concessionable revenues, we selected, based on risk, transactions from four months. Each transaction in the sample was analyzed and agreed to the deposit amount to determine whether the lessee completely and properly captured all concession items.

Further, we analyzed and agreed the reported monthly concession revenue for the audit period to the lessee's accounting records (general ledger, tax return, Z-tape, and deposit) to ensure complete reporting to the Port of Seattle.

Conclusion

Maki of Japan Oriental Eatery materially complied with the terms of the Lease and Concession agreement, as amended. We noted no discrepancies with reported concession revenue reported.