



Internal Audit Report

Ex Officio LLC

Lease and Concession Compliance Audit

June 1, 2008 through May 31, 2011

Issue Date: October 04, 2011
Report No. 2011-20



**Internal Audit
Lease and Concession Compliance Audit
Ex Officio LLC
June 1, 2008 – May 31, 2011**

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Transmittal Letter

We have completed an audit of the Lease and Concession Agreement between the Port of Seattle and Ex Officio LLC. The purpose of the audit was to determine whether:

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

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

We conducted the audit using due professional care. We planned and performed the audit to obtain reasonable assurance as to compliance with significant provisions of the agreement, including complete and timely reporting of concessionable revenues.

Ex Officio LLC materially complied with the terms of the Lease and Concession agreement.

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.

A handwritten signature in black ink that reads "Kirangi".

Joyce Kirangi, CPA
Director, Internal Audit



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Executive Summary

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

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

We examined the books and records of Ex Officio 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 the MAG is not less than \$120,000. Additionally, the agreement requires a Percentage Fee equal to 12 to 14 percent of gross revenues if the fee is higher than the monthly MAG payment.

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

- a. Tax imposed or collected on behalf of a taxing authority
- b. Discounts actually granted
- c. Refunds due to unsatisfactory or unacceptable goods or services

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 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.

Audit Result Summary Ex Officio materially complied with the terms of the Lease and Concession agreement. However, the audit disclosed minor instances of gross revenue deductions and late payments, thereby reducing concession fees slightly.



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Background

Ex Officio is an outdoor and travel clothing company founded in 1986 in Seattle, Washington as De Sar, Inc. In April 2007, the company was acquired by Jarden, a leading provider of niche consumer products used in and around the home.

Ex Officio has been operating at Sea-Tac Airport since 2005 and is currently located at Central Terminal in the airport.

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, provided it is not less than \$120,000. Additionally, the agreement requires a Percentage Fee of 12% to 14% of gross revenues to the extent that the fee is higher than the monthly MAG.

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	\$ 2,021,625	\$ 242,269
2009-2010	1,991,847	239,022
2010-2011	2,355,361	289,751
Total	\$ 6,368,833	\$ 771,042

Source: PROPWorks and PeopleSoft

Audit Objective

The purpose of the audit was to determine the following:

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

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



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Audit Scope and Methodology

We conducted the audit to determine whether the lessee was in compliance with the lease agreement terms including, but not limited to, monthly rent and concession payments. The audit 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 Requirements
- Certified Annual Revenue Report
- Concession revenue and payment

a. Timely Payment

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

b. Insurance Requirements

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. Certified Annual Revenue Report

We reviewed certified reports for the audit period to determine compliance with the timely and complete submission of the report.

d. Concession Revenue and Payment

To determine whether the lessee completely and accurately reported all revenues subject to concession, we obtained a complete set of the lessee's Point-of-Sale (POS) data for the audit period. We analyzed the data to ensure that all transactions were recorded properly and reconcile to the lessee's accounting records, as well as to the reported concession revenues to the Port. Additionally, we recalculated concession and Minimum Annual Guarantee (MAG) payments, based on audited concession revenues, to ensure billing accuracy.

Conclusion

Ex Officio materially complied with the terms of the Lease and Concession agreement. However, the audit disclosed minor instances of gross revenue deductions and late payments, thereby reducing concession fees slightly.