



**Port of Seattle**

***Internal Audit Report***

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**Lease and Concession Compliance Audit**

**Ivar's Inc.**

**June 1, 2007 – May 31, 2010**

Issue Date: October 4, 2011  
Report No. 2011-19



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Lease and Concession Compliance Audit  
Ivar's Inc.  
June 1, 2007 to May 31, 2010**

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**Transmittal Letter**

We have completed an audit of the Lease and Concession Agreement, as amended, between the Port of Seattle and Ivar's Inc.

The purpose of the audit was to determine whether:

- 1) The revenue reported was reasonable and complete
- 2) Rent payments were received in a timely manner
- 3) The lessee complied with provisions of the lease and concession agreement

We examined information related to a three-year period from June 1, 2007 to May 31, 2010.

We conducted our 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.

Ivar's Inc. reported the concessionable revenue properly and 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, appearing to read "Kirangi".

Joyce Kirangi, CPA  
Internal Audit, Director



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**Executive Summary**

**Audit Scope and Objective**

The purpose of the audit was to determine whether:

- 1) The revenue reported was reasonable and complete
- 2) Rent payments were received in a timely manner
- 3) The lessee complied with provisions of the lease and concession agreement

We examined the books and records of Ivar's Inc. for a three-year period between June 1, 2007 and May 31, 2010. Aviation Business Development has the primary responsibility for administering and monitoring the agreement to ensure compliance with agreed-upon terms.

**Agreement Terms** Ivar's Inc. is a private company that was founded on Pier 54 in Seattle in 1938. Since then, the company has expanded to include 25 fast casual Seafood Bars and three full-service waterfront restaurants. The Seafood Bars, including the location at Sea-Tac International Airport, serve fresh, grilled seafood entrees and salads as well as traditional favorites such as Ivar's famous chowders and fish n' chips.

The current agreement with Ivar's Inc. has been in effect since 2004. The agreement requires a fixed monthly rent that is adjusted annually to be 85% of the total amount of the prior year's sales. In addition, the agreement requires a percentage fee to the extent that the percentage fee exceeds the monthly minimum rent in accordance with the following structure:

- 12% - for receipts up to \$1.2 million
- 13% - for receipts greater than \$1.2 million, but less than \$1.5 million
- 14% - for receipts greater than \$1.5 million, but less than \$2.0 million
- 15% - for receipts greater than \$2.0 million

**Audit Result Summary** The reported concession was reasonable and complete. Other than minor exceptions, Ivar's Inc. materially complied with the terms of the Lease and Concession agreement.



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## Background

Ivar's Inc. is a private company that was founded on Pier 54 in Seattle in 1938. Since then, the company has expanded to include 25 fast casual Seafood Bars and three full-service waterfront restaurants. The Seafood Bars, including the location at Sea-Tac International Airport, serve fresh, grilled seafood entrees and salads as well as traditional favorites such as Ivar's famous chowders and fish n' chips.

The agreement requires a fixed monthly rent that is adjusted annually to be 85% of the total amount of the prior year's sales. In addition, the agreement requires a percentage fee to the extent that the percentage fee exceeds the monthly minimum rent in accordance with the following structure:

- 12% - for receipts up to \$1.2 million
- 13% - for receipts greater than \$1.2 million but less than \$1.5 million
- 14% - for receipts greater than \$1.5 million but less than \$2.0 million
- 15% - for receipts greater than \$2.0 million

The agreement has the following due dates for the minimum rent and percentage fee:

- The minimum rent – advance payment on or before the first day of each month
- The percentage fee – payment on or before the 15<sup>th</sup> day of the following month

## Financial Highlights for the Audit Period

Year	Reported Gross Revenue	Total Rent Paid
2007-08	\$ 2,964,296.41	\$ 397,644.46
2008-09	\$ 2,848,825.91	\$ 387,681.50
2009-10	\$ 2,759,134.16	\$ 373,025.16
Total	\$ 8,572,256.48	\$ 1,158,351.12

Source: PROPWorks

## Audit Objectives

The purpose of the audit was to determine whether:

- 1) The revenue reported was reasonable and complete.
- 2) Rent payments were received in a timely manner.
- 3) The lessee complied with provisions of the lease and concession agreement.

## Audit Scope and Methodology

The scope of the audit covered a three-year period between June 1, 2007 and May 31, 2010.



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We conducted the audit to determine whether the lessee was in compliance with the terms of the lease agreement including, but not limited to, the percentage fee and timely payment. Our approach to the audit was risk-based from planning to test sampling. Specifically, we performed detailed procedures in the following areas:

1. Completeness of Reported Revenue

We met with the lessee to discuss and understand their accounting and operating procedures. We reviewed financial records including the lessee's state tax returns and monthly revenue reports. In addition, we selected a week of sales and traced the revenue through from the point of sale to the daily summary report and reconciled the sales with the general ledger and the revenues reported to the Port.

2. Timely Submission of Rent and Percentage Fee

We reviewed the Port's records to determine when the rent payments were received and whether or not they were late. In the event that payments were later than the 10-day grace period identified in the lease and concession agreement, we calculated the expected interest and late charge and determined whether it had been assessed.

3. Compliance with Insurance Requirements

We identified the insurance coverage required by the lease and concession agreement and determined whether the lessee had obtained sufficient coverage and submitted evidence to the Port.

4. Compliance with Letter of Credit Requirements

We identified the letter of credit amounts required by the lease and concession agreement and determined whether the lessee had obtained the appropriate letter of credit and submitted evidence to the Port.

5. Compliance with Annual Reporting Requirement.

We identified the annual reports required by the lease and concession agreement and determined whether the lessee had submitted the reports on time and in accordance with the agreement.

## **Conclusion**

The reported concession was reasonable and complete. Other than minor exceptions, Ivar's Inc. materially complied with the terms of the Lease and Concession agreement.