



Internal Audit Report

Bill & Nick, Inc.
d/b/a Bay Cafe

Lease and Concession Compliance Audit

January 1, 2009 to December 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 Bill & Nick, Inc., d/b/a Bay Café.

The purpose of the audit was to determine whether:

- 1) Reported concession was complete and properly calculated.
- 2) The lessee complied with provisions of the Lease and Concession Agreement.

We examined information related to a two-year period from January 1, 2009, through December 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.

Bill & Nick, Inc. reported concession properly and complied materially with the terms of the Lease and Concession agreement.

We extend our appreciation to Portfolio Management in Real Estate Division and to Accounting & Financial Reporting for their assistance and cooperation during the audit.

Thank you.



Joyce Kirangi, CPA
Director, Internal Audit

Executive Summary

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

- 1) Reported concession was complete and properly calculated.
- 2) The lessee complied with provisions of the Lease and Concession Agreement.

We examined the books and records of Bill and Nick, LLC for a two-year period from January 1, 2009 through December 31, 2010. Portfolio Management in Real Estate Division 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 Bill & Nick, Inc. (d/b/a Bay Café) is a private company that has operated a diner on Fisherman's Terminal since 1987. Based in Seattle, Washington, this establishment has been serving visiting and local patrons food items, beverage items, and other business related services just feet from the wharf.

The current agreement with Bill & Nick, Inc. at the Fisherman's Terminal location has been in effect since 1987. The agreement requires a fixed monthly minimum rent to be adjusted annually based on a 3 prior year average. In addition, the agreement requires a percentage fee of 6%, provided the fee exceeds the fixed monthly minimum rent.

Audit Result Summary Reported concession was complete and properly calculated. In addition, other than minor exceptions, Bill & Nick, Inc. complied materially with the terms of the Lease and Concession agreement.

Background

Bill & Nick, Inc. (d/b/a Bay Café) is a private company that has operated a diner on Fisherman's Terminal since 1987. Based in Seattle, Washington, this establishment has been serving visiting and local patrons food items, beverage items, and other business related services just feet from the wharf.

The agreement requires a fixed monthly minimum rent to be adjusted annually based on a 3 prior year average. In addition, the agreement requires a percentage fee of 6%, provided the fee exceeds the fixed monthly minimum rent.

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

- the minimum rent - advance payment on or before the first day of each calendar month
- the percentage rent - within thirty days after each calendar month

Financial Highlights for the Audit Period

Year	Reported Gross Revenue	Total Rent Paid
2009	\$766,313	45,978.80
2010	\$795,754	47,745.22

Source: PROPWorks and PeopleSoft

Audit Objective

The purpose of the audit was to determine the following:

- 3) Reported concession was complete and properly calculated.
- 4) The lessee complied with provisions of the Lease and Concession Agreement.

The scope of the audit covered a two-year period from January 1, 2009 to December 31, 2010.

Audit Scope and Methodology

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 rental. Our approach to 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:

- Concession
- Insurance
- CPA Certified Annual Report
- Annual Rent Adjustment

a. Concession

We met with the lessee to discuss and understand lessee revenue accounting and operating procedures. We reviewed the lessee's financial records including state Business Occupation (B&O) tax returns for the audit period to determine if reported gross revenues were complete. Additionally, we selected two highest gross months in the audit period and reconciled the sales to daily sales journals and bank statements.

b. CPA Certified Annual Report

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

c. Insurance

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.

d. Annual Rent Adjustment

We reviewed and recalculated annual rent adjustments for the audit period to determine if the rent was properly and accurately adjusted.

Conclusion

Reported concession was complete and properly calculated. In addition, other than minor exceptions, Bill & Nick, Inc. complied materially with the terms of the Lease and Concession agreement.