



Internal Audit Report

West Coast Cold, LLC
d/b/a CityIce Cold Storage, LLC

Lease and Concession Compliance Audit

January 1, 2009 to December 31, 2010

Issue Date: August 02, 2011
Report No. 2011-14



Internal Audit
West Coast Cold, LLC d/b/a CityIce Cold Storage, LLC
Agreement #131. #594. #842 and #1481

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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 West Coast Cold, LLC d/b/a CityIce Cold Storage, LLC.

The purpose of the audit was to determine whether:

- 1) Reported concession was complete and properly calculated.
- 2) The Port and 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.

CityIce Cold Storage, LLC materially complied with the terms of the Lease and Concession agreement.

We extend our appreciation to the Seaport Industrial, Cruise and Dock Services management and staff of Real Estate Lease Administration, and 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 Port and the lessee complied with provisions of the Lease and Concession Agreement.

We examined the books and records of Citylce Cold Storage, LLC for a two-year period from January 1, 2009 through December 31, 2010. Seaport Industrial, Cruise and Dock Services, 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 agreement requires Citylce Cold Storage, LLC to pay the Port a quarterly Percentage Rental fee of 3% of its Gross Revenue. The fee is payable only to the extent that it is greater than the Guaranteed Minimum Rent (GMR) attributable to Building No. 39 and 390 land area on the agreement # 131. The agreements # 594, #842, and #1481 were subject to an adjustment annually to reflect changes in the Consumer Price Index (CPI).

The GMR and monthly rent are payable in advance on or before the first day of each month, without notice from the Port and without setoff or deduction. The Percentage Rental, if applicable, is due on or before the 20th of the month following the end of each calendar quarter.

For untimely payments, the agreement provides for a one-time late fee 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 Citylce Cold Storage, LLC materially complied with the terms of the Lease and Concession agreement.

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Background

West Coast Cold, LLC acquired Citylce Cold Storage, LLC Company in 2010 and Seafreeze in 2008, and combined them into the current Seafreeze/Citylce operations. West Coast Cold LLC is a Delaware corporation with many independent operations in the United States, Canada and around the world. Citylce Cold Storage, LLC provides secondary packaging, onsite processing, agricultural storage, and industrial Imports.

The Port currently has five separate agreements with Citylce Cold Storage, LLC for various locations at Terminal 91 and south end of Terminal 115. All five agreements have a fixed monthly rent to be adjusted annually based on CPI, but they do not all have a concession as part of the agreed-upon terms and conditions. Agreement #131 is the only agreement of the five where a concession of 3% of Gross Revenue is required. If applicable, Citylce Cold Storage, LLC pays the Port a quarterly concession percentage fee of 3% of its Gross Revenue in excess of quarterly Guaranteed Minimum Rent applicable to Building # 39 and 390 land area.

The concession fee is payable to the Port no later than 20 days after the end of calendar quarter. For untimely payments, the agreement provides a one-time late fee 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 Citylce Cold Storage, LLC financial highlights for the last three years related to the building No. 39 and 390 land area:

Year	Reported Gross Revenue	Percentage Rental (payable if it exceeds the rent paid)	Rent Paid
2008	\$3,802,705	\$114,081	\$286,936
2009	\$4,220,211	\$126,606	\$298,882
2010	*	*	\$313,824
Total	\$8,022,916	\$240,687	\$585,818

Source: PROPWorks and PeopleSoft

* Effective January 1, 2010, the Percentage Rental fee under lease agreement #131 was no longer applicable.

Audit Objective

The purpose of the audit was to determine the following:

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

The scope of the audit covered the period of January 1, 2009 through December 31, 2010.

Audit Scope and Methodology

We conducted the audit to determine whether the parties were in compliance with the lease agreements 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:

- Percentage Rental
- The CPI adjustment
- Insurance liability
- Surety Bond/Security Deposit.

a. Percentage Rental

We evaluated the lessee's 2009 Statement of Operations and the 4th quarter state Business Occupation (B&O) tax return to determine if reported gross revenues were reasonably complete. We further calculated the gross revenues at which the 3% Percentage Rental would have been triggered. We compared the calculated gross revenues to the reported in order to determine whether the percentage rental fee was applicable, and if so, it was completely and accurately calculated.

b. The CPI (Consumer Price Index) Adjustment

We individually reviewed the CPI adjustment under each agreement and confirmed compliance.

c. Insurance Liability

We individually reviewed insurance requirements under each agreement. The review results were compared to coverage, as reflected in Insurance Certificate, to ensure compliance.

d. Surety Bond/Security Deposit

We reviewed surety requirements under each agreement. We agreed such requirements to Surety Bond to ensure compliance.

Conclusion

Based on our audit, CityIce Cold Storage, LLC materially complied with the terms of the Lease and Concession agreement.