



INTERNAL AUDIT REPORT

LEASE AND CONCESSION AGREEMENT AUDIT

DUFRY NORTH AMERICA, LLC

August 1, 2014 - July 31, 2016

ISSUE DATE: September 1, 2017
REPORT NO. 2017-13

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of this audit was to determine whether:

- Port management monitoring controls were effective.
- Dufry North America, LLC complied with significant terms in the lease and concession agreement.

We reviewed and analyzed records for the Agreement period August 1, 2014 - July 31, 2016.

BACKGROUND

Effective July 2013, the Port of Seattle (Port) entered into a Lease and Concession Agreement with Dufry North America, LLC (Dufry) to operate duty free and duty paid stores at the Seattle-Tacoma International Airport.

For the concession rights and privileges, Dufry pays the Port a Minimum Annual Guarantee (MAG) and a percentage fee (including a contract rent of 7%). The MAG is payable in advance, on or before the first day of each month. Dufry provides the Port with detailed statements of gross sales for the preceding month and simultaneously pays the Port a percentage fee for that preceding month less the monthly MAG already paid for that month.

AUDIT RESULT

- Port management monitoring controls were effective.
- Dufry generally complied with significant terms in the lease and concession agreement.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
TRANSMITTAL LETTER.....	1
BACKGROUND	2
FINANCIAL HIGHLIGHTS	2
AUDIT SCOPE AND METHODOLOGY.....	3
CONCLUSION.....	3

TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed the audit of the Lease and Concession Agreement #AIR001661 between the Port of Seattle and Dufry North America, LLC. We reviewed information for the period August 1, 2014 - July 31, 2016.

We conducted the audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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.

We extend our appreciation to the management and staff of the Airport Dining and Retail Department, Dufry North America, LLC and Accounting & Financial Reporting for their assistance and cooperation during the audit.



Glenn Fernandes, CPA
Director, Internal Audit

AUDIT TEAM

Ritika Marwaha, CPA, Senior Auditor
Dan Chase, CPA, Audit Manager -
Acting

RESPONSIBLE MANAGEMENT TEAM

Jim Schone, Director AV Business Development
Scott Van-Horn, Sr. Business Manager - Airport Dining &
Retail
Rudy Caluza, Director Accounting and Financial Reporting

BACKGROUND

Effective July 2013, the Port of Seattle (Port) entered into a Lease and Concession Agreement with Dufry North America, LLC (Dufry) to operate duty free and duty paid stores at the Seattle-Tacoma International Airport.

Dufry is a leading global travel retailer with operations in 63 countries. Dufry operates approximately 2,200 duty free and duty paid shops located at airports, cruise liners, seaports, and other touristic locations. Dufry operates three stores at Seattle Tacoma International Airport located in the South Satellite, Central Terminal, and Concourse A. These three locations represent approximately 7,000 square feet of retail space.

For the concession rights and privileges, Dufry pays the Port a Minimum Annual Guarantee (MAG) and a percentage fee (including a contract rent of 7%). The MAG is payable in advance, on or before the first day of each month. Dufry provides the Port with statements of gross sales for the preceding month and simultaneously pays the Port a percentage fee, if necessary, for that preceding month less the monthly MAG already paid for that month. Percentage fees are paid to the extent the percentage fee is higher than the monthly MAG payment according to the following schedule:

<u>Gross Sales</u>	<u>Percentage of Gross Sales</u>
Gross Sales ≤ \$10,000,000	28.0 %
Gross Sales > \$10,000,000 but ≤ \$15,000,000	36.0 %
Gross Sales > \$15,000,000	37.0 %

FINANCIAL HIGHLIGHTS

DUFRY NORTH AMERICA, LLC

<u>AGREEMENT PERIOD</u>	<u>REPORTED GROSS REVENUES*</u>	<u>MINIMUM ANNUAL GUARENTEE</u>	<u>PERCENTAGE FEE</u>
August 1, 2014 - July 31, 2015	\$21,155,550	\$6,000,000	\$6,877,554
August 1, 2015 - July 31, 2016	19,706,617	6,000,000	6,341,448
TOTAL	\$40,862,167	\$12,000,000	\$13,219,002

Data Source: PeopleSoft Financials & Propworks

* Certified Annual Report of Gross Sales - Dufry

AUDIT SCOPE AND METHODOLOGY

Internal Audit reviewed information for the period August 1, 2014 – July 31, 2016, utilizing a risk-based approach from planning to examination. We gathered information through document requests, research, interview, observations, and data analysis.

We applied detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

- Reviewed the lease agreement to identify significant provisions.
- Performed analytical procedures which included comparing the monthly concession billings to enplaned passengers.
- Traced detailed revenue transactions to Dufry's trial balance to assess the completeness of information.
- Analyzed Port records to determine the timeliness of MAG and concession/percentage fee payments.
- Determined whether Port management had established monitoring controls to ensure compliance with the key lease provisions.
- Verified compliance with significant terms in the lease and concession agreement including:
 - Insurance and surety
 - Monthly and annual reporting

CONCLUSION

- Port management monitoring controls were effective.
- Dufry generally complied with significant terms in the lease and concession agreement.