PORT COMMISSION:

Concession Audit of The Pollack Group, Ltd. dba Nick's Lighthouse

FINANCIAL AUDITS DIVISION

September 29, 2005
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Concession Audit of
The Pollack Group, Ltd. dba
Nick’s Lighthouse

FINANCIAL AUDITS DIVISION

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04047
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San Francisco Port Commission
Pier One
San Francisco, CA 94111

President and Members:

The Controller’s Financial Audits Division contracted with Hood & Strong LLP to conduct an audit of The Pollack Group, Ltd. dba Nick’s Lighthouse. Attached is the report prepared by Hood & Strong LLP.

Reporting Period: January 1, 2002, through December 31, 2004

Rent Paid: $807,661

Results:

Hood & Strong LLP found no exceptions in The Pollack Group, Ltd. dba Nick’s Lighthouse’s reported sales and rent paid.

Respectfully submitted,

Noriaki Hirasuna
Director

cc: Mayor
    Board of Supervisors
    Civil Grand Jury
    Public Library
Independent Accountants' Report

THE CONTROLLER'S OFFICE
CITY AND COUNTY OF SAN FRANCISCO
San Francisco, California

We have performed the procedures, enumerated below, which were agreed to by the CONTROLLER'S OFFICE, CITY AND COUNTY OF SAN FRANCISCO ("City") and the PORT COMMISSION, CITY AND COUNTY OF SAN FRANCISCO, PORT OF SAN FRANCISCO ("Port"), to certain accounting records of The Pollack Group, LTD. dba Nick's Lighthouse ("Tenant") for the period of January 1, 2002 through December 31, 2004, solely to assist you in determining compliance by the Tenant with respect to certain provisions of a lease agreement (lease #L-7492) between the Port and the Tenant. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the City and the Port. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and the associated findings are as follows:

Procedures and Findings:

Procedure

We read the lease agreement and all amendments and related correspondence for all variables related to the definition of sales, as interpreted by Port personnel and Tenant.

Finding

We found no exceptions.

Procedure

We documented the nature of the Tenant's business and the type of transactions that affect sales, through the use of a revenue cycle questionnaire.

Finding

We found no exceptions between our understanding of the revenue cycle and the transaction testing performed below.
**Procedure**

We obtained the Tenant's monthly sales and rental reports submitted to the Port for the period from January 1, 2002 through December 31, 2004. These reports are used by the Tenant to report gross monthly revenue and related rents payable to the Port. We reconciled these monthly reports to the Port's Customer Account Detail report for the same period. We agreed the monthly amounts to the Tenant's monthly general ledger reports, selected quarterly summaries and ultimately, the annual general ledger reports. We also reviewed any credits issued by the Port or taken by Tenant during this period to supporting documentation. We summarized the information as follows:

### Schedule of Gross Sales and Related Rents Payable:

<table>
<thead>
<tr>
<th></th>
<th>Gross Sales Reported</th>
<th>Related Rents Payable</th>
<th>Rent Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1, 2002 through December 31, 2002</td>
<td>$4,135,125</td>
<td>$268,783</td>
<td>$ -</td>
</tr>
<tr>
<td>January 1, 2003 through December 31, 2003</td>
<td>4,142,471</td>
<td>269,261</td>
<td>-</td>
</tr>
<tr>
<td>January 1, 2004 through December 31, 2004</td>
<td>4,147,957</td>
<td>269,617</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$12,425,553</td>
<td>$807,661</td>
<td>$ -</td>
</tr>
</tbody>
</table>

**Finding**

We found no exceptions.

**Procedure**

We recalculated the applicable minimum rent adjustment required based on changes in the United States Department of Labor's Bureau of Labor Statistics Consumer Price Index, All Urban Consumers, San Francisco - Oakland - San Jose, California to determine if it was properly calculated by the Port.

**Finding**

We found no exceptions.

**Procedure**

We obtained the monthly sales summary reports and general ledgers for June 2002, September 2002, January 2003, April 2003, March 2004 and August 2004 from the Tenant and traced and agreed total revenues reported to the Port.

**Finding**

We noted that the revenues reported to the Port were less than the monthly sales summary reports. The difference appears to be employee meals which are properly excluded from gross receipts per the lease agreement.
Procedure

We obtained the Sales and Use Tax returns and supporting documentation for the 2002 third quarter, 2003 first quarter and 2004 third quarter from Tenant and traced and agreed total revenues reported to the Sales and Rental Report as submitted to the Port by the Tenant.

Finding

We noted that the revenues reported per the Sales and Use Tax returns were greater than the amounts reported per the Sales and Rental Report. The difference appears to be employee meals which are properly excluded as sales per the lease agreement.

Procedure

We obtained the monthly summary records and the detail daily sales reports used to prepare the monthly summary records for September 2002, April 2003, and August 2004 from the Tenant. We traced and agreed the total sales listed on the daily sales reports to the monthly summary recorded in the general ledger. We scanned the daily sales report summaries for evidence of operation on each day the Tenant was open for business.

Finding

We found no exceptions.

Procedure

We selected the daily sales of September 15, 2002, April 28, 2003 and August 5, 2004. We obtained the daily sales reports for the above dates and traced and agreed this information to cash register tapes. We traced the total daily sales to the respective deposit slip (both cash and credit card) and bank statement and traced and agreed the cash register tapes to daily sales totals.

Finding

The Tenant retains original receipts, bills, signed credit card slips, etc. for a short amount of time then destroys the documents. The Tenant relies on back-up data tapes to support daily transactions. However, the Tenant was unable to provide data related to our selection of September 15, 2002, due to corrupt data tapes, as a result, an alternative date of September 25, 2002 was selected. No exceptions were found.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records of the Tenant. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of the Port and the City and is not intended to be and should not be used by anyone other than these specified parties.

Hood & Strong LLP

July 8, 2005