

ABC BAGELS, INC.
d.b.a. ABC BAGELS
MAJOR SHOPPING CENTER
PHILADELPHIA, PA
TENANT SALES AUDIT REPORT
for the twenty-four (24) months
ended December 31, 2001

TENANT SALES AUDIT REPORT

Tenant: ABC Bagels, Inc.
Trade Name: ABC Bagels
Shopping Location: Major Shopping Center
City / State: Philadelphia, PA
Period: The twenty-four (24) months
ended December 31, 2001

Client

Company: Major Realty, LLC
Person: Mr. Bill Smith, General Manager
Address: 123 Main Street
City / State: Minneapolis, MN 55555
Date of Examination: April 14, 2002
Date of Report: April 16, 2002

Compu/Audit, Inc.
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Section 1

Executive Overview

Tenant:	<u>ABC Bagels, Inc.</u>
Shopping Center:	<u>Major Shopping Center</u>
City:	<u>Philadelphia, PA</u>
Report Date:	<u>April 16, 2002</u>
Landlord:	<u>Major Realty, LLC</u>
Management:	<u>Major Property Management Co.</u>

1. Audit Period: From January 1, 2000 to December 31, 2001
2. Examination Location: Philadelphia, PA
3. Date of Examination: April 14, 2002

4. Total Unreported Sales.....	<u>\$ 779,611</u>
5. Sales in Percentage Rent.....	<u>779,611</u>
6. Percentage Rent Due Landlord.....	<u>23,188</u>
7. Interest Due Landlord	<u>2,471</u>
8. Examination Fee Due Landlord.....	<u>750</u>
9. Grand Total.....	<u>\$ 26,409</u>

10. Tenant's response to findings:
Tenant partially agrees with findings.
11. Sales records requested but not provided:
Sales Journals, General Ledger, October 2001 Profit & Loss Statement, records necessary to substantiate sales exclusions.
12. Tenant's compliance with Reporting Requirements:
Tenant does not comply with Reporting Requirements, as reported sales are incorrect.

Section 1

Executive Overview

(continued)

Comments

The lease limits two lease years sales to be audited, and the tenant permitted the sales audit of the lease years 2001 and 2000 only. By so doing, the lease year 1999 was not subject to sales audit, and the percentage rent for that year, if any, could not be determined. Discussion with the tenant revealed that the tenant appears to have deducted State and City Sales Tax from net sales (in error) by \$207,354 for 2001 and \$183,015 for the year 2000. The foregoing amounts have been included in the unreported sales amounts in Sections 1 and 2 as unreconciled differences. The sales data for the month of October 2001 could not be located. Apparently, cash defalcations are not unusual at the tenant's premises. The books and records of the tenant, as witnessed by the examiner are of poor quality and possibly subject to financial abuse.

The tenant changed accounting computer software, and as a result of the related accounting problems, the audit trail from the primary sales data to the monthly profit and loss statements was not available. The tenant's representative attempted to assist us during the audit, but the poor quality and quantity of the accounting records provided, combined with her apparent lack of accounting background resulted in a limited tenant sales audit.

From January to June 2000, the baked goods were prepared at the Liberty location. From July 2000, to October 2001, the baked goods were prepared at the demised premises; and finally, for November and December 2001 the baking of goods returned to the Liberty location. This moving of baking operations resulted in accounting difficulties as they relate to the transfer of merchandise between locations, which are properly excluded under the lease.

Section 1

Executive Overview

(continued)

Comments

(continued)

However, the accounting data provided by the tenant to permit sales exclusions for the lease year 2000 was of very limited use to the examiner. Cash/sales are subject to an internal audit.

Article 1(F) of the lease defines the gross sales. As is common practice, included in the permitted sales exclusions are interstore transfers. The wholesale sales as categorized by the tenant for 2000 (\$222,102) and for 2001 (\$150,330) were described to the examiner by the tenant as being interstore accounting transfers for the purpose of selling food products to wholesale customers. Therefore, according to the lease sales definition, these sales should not be excluded from the reported sales, as these are apparently, in fact, wholesale sales. When the examiner explained the audit conclusions to the tenant, she responded by stating that, in her opinion, the wholesale sales/interstore transfers were not, according to the lease, reportable store sales of the demised premises, and that the wholesale sales/interstore transfers were for accounting control purposes only. It is solely the tenant's responsibility to clearly identify which, if any, wholesale sales are interstore transfers in order to classify which transactions are to be excluded under the terms of the lease. The tenant has failed to do so.

The tenant utilizes a variety of discounting methods such as coupons, bonus days, etc. Sales are allocated to seven revenue classifications which provide management with helpful information.

Section 2

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Additional Percentage Rent Due

	Lease Year Ended 12/31/01	Lease Year Ended 12/31/00
Reported Sales	\$3,352,276	\$3,354,966
Findings:		
1. <u>Unreconciled difference</u>	187,699	219,480
2. <u>Memo - 2001 Sales tax is \$183,015</u> <u>and 2000 Sales tax is \$207,354</u>		
3. <u>Wholesale Sales</u>	150,330	222,102
Total Findings	338,029	441,582
Subject Sales	3,690,305	3,796,548
Break Point	3,200,000	3,200,000
Percentage Rent Application	490,305	596,548
	%	%
	2.5	2.5
Amount of Percentage Rent	12,258	14,914
Paid Previously	0	3,984
Percentage Rent Balance	12,258	10,930

Summary

Additional Percentage Rent Due	\$ 23,188
Interest Due Landlord	2,471
Audit Fee Due Landlord	750
Total Due Landlord	<u>\$ 26,409</u>

For Additional information, please contact Compu/Audit, Inc. at

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