

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

**Audit Report on the Compliance of
Brooklyn Baseball Company, L.L.C.,
(The Cyclones) with Their Lease
Agreement
June 15, 2001–December 31, 2002**

FN03-111A

June 27, 2003



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has examined the compliance of Brooklyn Baseball Company, L.L.C. (Brooklyn Cyclones) with the terms of their lease agreement with the Department of Parks and Recreation. The results of our audit, which are presented in this report, have been discussed with Cyclones and Parks Department officials, and their comments have been considered in preparing this report.

Audits such as this provide a means of ensuring that private concerns conducting business on City property comply with the terms of their agreements, properly report revenues, and pay the City all fees due.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please contact my audit bureau at 212-669-3747 or e-mail us at audit@Comptroller.nyc.gov.

Very truly yours,

A handwritten signature in cursive script that reads "William C. Thompson, Jr.".

William C. Thompson, Jr.

WCT/GR

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*The City of New York
Office of the Comptroller
Bureau of Financial Audit*

**Audit Report on the Compliance of
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(The Cyclones) with Their Lease Agreement
June 15, 2001–December 31, 2002**

FN03-111A

AUDIT REPORT IN BRIEF

In June 2001, Brooklyn Baseball Company, L.L.C. (doing business as the Cyclones), and the New York City Department of Parks and Recreation (Parks) entered into a 20-year lease agreement commencing on June 15, 2001. The lease, which is monitored by Parks, grants the Cyclones the exclusive rights to use KeySpan Park on Surf Avenue in Brooklyn. The lease requires that the Cyclones pay rent to the City based on game attendance, team store rent, special event net income, advertising, etc. The lease also requires that the Cyclones deposit \$25,000 each year into a sinking fund that permits Parks to perform capital work projects at the stadium. In addition, the lease requires that Parks pay the Cyclones a portion of the net parking lot income generated from the City lot adjacent to the stadium.

This audit determined whether the Cyclones complied with their lease agreement with the City; paid the appropriate fees due the City and whether they paid these fees on time; and maintained adequate internal controls over the recording and reporting of gross receipts and attendance.

For the audit period—June 15, 2001, through December 31, 2002—the Cyclones paid the City \$1,131,196 in rental fees; for the same period, Parks paid the Cyclones \$200,000 related to net parking lot income.

Audit Findings and Conclusions

We found significant weaknesses in the Cyclones internal controls that prevented us from determining whether “actual attendance,” “no-shows,” and recreation area attendees were reported accurately, and whether all appropriate fees due the City were paid. Article 3, § 3.01(a)(ii), of the lease requires that the Cyclones calculate their base rent from turnstile counts. However, the Cyclones do not use turnstile counts to record and report attendance. Instead, the Cyclones count ticket stubs at the end of each game, identifying the different ticket categories (i.e., paid tickets, complimentary tickets, recreation area tickets) on the Daily Turnstile reports.

The Cyclones' approach is not adequate to ensure that all ticket stubs are included in the count. A complete count can be assured only by using the lease-mandated turnstile counts along with the ticket stubs. Our attempt to use the turnstile counts to verify reported attendance was unsuccessful because the Cyclones used eight turnstiles interchangeably at the stadium entrances, but recorded the counts from only six turnstiles on the Daily Turnstile reports. Also, the closing turnstile entry totals from one game were not listed as the opening turnstile entry totals on the Daily Turnstile reports for the next game in 644 of 924 cases; and total turnstile counts did not match and could not be reconciled with the physical ticket stub count for the reported attendance on the Daily Turnstile reports.

In addition, the Cyclones: did not report \$98,600 recorded on their books as rent revenue from the Surf Avenue retail space and therefore owe the City \$49,300 in additional fees; and did not deposit \$37,500 into a sinking fund, as required by the lease. Moreover, the Cyclones did not report Special Event income totaling \$101,473. However, even if this amount had been reported, the Cyclones would not have reached the net income threshold at which additional Special Event fees become due.

It should be noted that subsequent to the issuance of the preliminary draft report, the Cyclones remitted a check of \$50,000 to cover the first two years of payments to the sinking fund, and a check of \$67,283 for the Surf Avenue retail rent.

Audit Recommendations

We recommend that the Cyclones base "actual attendance" on their turnstile counts, as required by the lease. The Cyclones should: specifically label and identify each turnstile; record the closing and opening count for each turnstile for each game; ensure that each opening turnstile count matches the previous closing game count; secure and monitor all turnstiles to ensure that they are used only by game attendees and are not altered in any way to affect the recorded counts; and reconcile turnstile counts with the physical ticket counts.

In addition, the Cyclones should: reconcile the Daily Turnstile reports with the Season Summary and the Performance Sales reports; remit all quarterly fees due from the Surf Avenue rental space with the required quarterly Statement of Retail Net Profit, in accordance with the lease agreement; and ensure that all income and expenses are appropriately reported on the Special Event statements submitted to Parks.

We recommend that Parks ensure that the Cyclones pay the City all fees due from the retail rent space, in accordance with the lease, and implement the report's recommendations for enhancing their internal controls and reporting procedures.

INTRODUCTION

Background

On June 1, 2001, Brooklyn Baseball Company, L.L.C. (doing business as the Cyclones), and the New York City Department of Parks and Recreation (Parks) entered into a 20-year lease

agreement commencing on June 15, 2001. The lease, which is monitored by Parks, grants the Cyclones the exclusive rights to use KeySpan Park on Surf Avenue in Brooklyn. The lease allows the Cyclones to sell game tickets, operate the team store, lease the stadium for special events (i.e., art, culture, community, charity, civic, and amateur sporting events), sell stadium advertising, provide food and souvenir concessions within the stadium, and operate or sublease the retail space on Surf Avenue. The agreement also allows the Cyclones to sublease the concessions within the stadium. During the period covered by this audit, the Cyclones subleased retail space on Surf Avenue to Freddie Corporation for a family-style restaurant and sports bar, to Brooklyn Slices and Ices, Inc., for a pizzeria, and to Oriental Palace Chinese Restaurant, Inc. The Cyclones chose to sublease the stadium concessions to Aramark.

The base rent, percentages of revenue and net profit, and other payments due under the lease are shown in Table I:

TABLE I
Base Rent, Percentages of Revenue and Net Profit, and
Other Payments Required by the Lease

Cyclones Payments to Parks:

Game Attendance	Ranging from \$100,000 to \$510,000, based on actual annual paid attendance of 125,000 or more. ¹
No-Shows	\$0.38 for each patron who purchased a ticket but did not attend the game.
Recreation Area (Bleacher) Seats	\$0.25 for each patron based on “actual attendance.” ¹
Team Store Rent	1/12 of \$5 per square foot of the gross floor area for eight months except June, July, August, and September for which no rent is due.
Shared Special Event Net Income	30% of total event net income in excess of \$143,000.
Stadium Advertising	50% of revenue from the advertising stadium signage capped at \$250,000.
Surf Avenue Retail Rent	50% of the net profit (rent paid, less documented expenses associated with maintaining the space) from the retail rent payments due within 30 days of the close of each quarter ending October 31, January 31, April 30, and July 31.

¹ Section 3.01(a)(ii) of the lease defines “actual attendance” for a particular year as the total number of ticket purchasers who actually attended the team home games (the turnstile count), less complimentary tickets and recreation area (bleacher) tickets.

Capital Contribution	\$25,000 annual capital sinking fund contribution, half of which is due on March 1 and October 31.
Electricity	100% of consumption costs for the stadium, as billed by Parks.

Parks Payment to the Cyclones:

Net Parking Lot Income	100% of the net parking lot income related to vehicles at the premises two hours before, and one hour after a stadium event.
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The lease also requires that the Cyclones deposit \$25,000 each year into a sinking fund that permits Parks to perform capital work projects at the stadium; carry comprehensive property and liability insurance that names the City as an additional insured party; pay for the stadium's water and sewer use, and provide a \$50,000 security deposit to Parks. In addition, the lease requires that Parks pay the Cyclones a portion of the net parking lot income generated from the City lot adjacent to the stadium. Finally, the agreement requires that the Cyclones submit to Parks each year an Attendance Report, Statement of Special Event Net Income, Statement of Signage Revenue, and the Statement of Retail Net Profit.

Objectives

Our audit objectives were to determine whether the Cyclones:

- paid the appropriate fees due the City and whether these fees were paid on time;
- maintained adequate internal controls over the recording and reporting of gross receipts and attendance;
- received the appropriate payments from Parks in accordance with the agreement; and
- complied with certain other requirements of its agreement (i.e., maintained the required insurance, reimbursed the City for electricity use, paid for its water and sewer use, provided the proper security deposit, and made the required capital sinking fund contributions).

Scope and Methodology

This audit covered the period June 15, 2001, through December 31, 2002. To achieve our audit objectives, we reviewed and abstracted the relevant terms and conditions of the agreement. To ascertain whether the Cyclones remitted the required statements and paid all fees due the City on time, we reviewed records on file at Parks, including Parks Concessionaire

Ledger and Cyclones rent statements, insurance certificates, and correspondence between Parks and the Cyclones.

We evaluated the internal controls over Cyclones record keeping, revenue collection, and reporting functions. We conducted a walkthrough of Cyclones operations pertaining to ticket sales, game attendance, team store rent, special events, stadium advertising, and the collection of rent for the retail space. We documented our understanding of Cyclones procedures and controls through memoranda. We then conducted an analytical review of the Cyclones' reported attendance and revenue amounts to identify any inconsistencies.

To determine whether the Cyclones correctly calculated and reported the base rent components for "actual attendance" to the City, we reviewed the attendance recorded on the Season Summaries and Daily Turnstile reports. To determine whether the Cyclones correctly calculated and reported the base component for "no shows," we reviewed the total number of tickets sold recorded on the Daily Turnstile, Season Summaries, and Performance Sales reports, and reduced the number of total tickets sold from that day's ticket stub count. We then recalculated all base rent components. As additional testing, we selected the 2002 season—the most recent year that could be audited—and counted all ticket stubs in the Cyclones' possession. We compared the results of our count to the ticket stub counts listed on the Daily Turnstile reports.

We also recalculated the rent pertaining to the Team Store to determine whether the Cyclones paid the correct amount to the City.

To determine whether the Cyclones properly reported Special Event net income, we reviewed the special events calendars and ledger accounts. We sampled all special event contracts equal to or greater than \$7,500 for the audit period, which represented \$122,500 (approximately 68%) of the \$179,152 in total reported special event income. We compared the amounts recorded on each contract to the amounts recorded in the general ledger.

To determine whether the Cyclones paid all required stadium-advertising fees to the City, we compared the stadium advertising revenue reported on Cyclones Statements of Signage Revenue to the amounts recorded in the general ledger and trial balance.

To determine whether the Cyclones accurately reported their retail area net profit to the City, we reviewed the rental entries in the general ledger, trial balance, tenant ledgers, and rent roll. We also examined each tenant's sublease and matched the stated rents to the amounts recorded on Cyclones books and records and to the amounts the Cyclones reported to the City.

To determine whether the Cyclones made the appropriate contributions into the sinking fund, we requested the related documentation.

To determine whether the Cyclones maintained the proper insurance coverage that named the City as an additional insured party, we examined the Cyclones certificates of insurance. To determine whether they paid their water and sewer charges and reimbursed Parks for electricity at the stadium, we reviewed billing statements and copies of canceled checks. To determine

whether the Cyclones paid their required security deposit, we examined the Parks Franchise Inventory report and the Cyclones security deposit receipt.

Finally, to determine whether Parks paid the Cyclones their share of parking revenue, we examined the contract between Parks and the parking lot operator, Steeplechase Park Garage, L.L.C. (Steeplechase), and determined whether the Steeplechase payments to Parks were in accordance with the contract. We then reviewed the Parks Concessionaire ledger and determined whether the Cyclones received the appropriate payments.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller, as set forth in Chapter 5, § 93, of the New York City Charter, and § 32.02 of the Cyclones agreement with Parks, which gives the Comptroller the right to audit.

Discussion of Audit Results

The matters covered in this report were discussed with officials from the Cyclones and from Parks during and at the conclusion of this audit. A preliminary draft report was sent to Cyclones and Parks officials and was discussed at an exit conference on June 4, 2003. On June 5, 2003, we submitted a draft report to Cyclones and Parks officials with a request for comments. On June 18, 2003, we received written responses from Cyclones and Parks officials.

In their response, Cyclones officials stated, “Only three issues remain in dispute: the method of reporting ‘actual attendance’ at Brooklyn Cyclones baseball games at KeySpan Park; remittance by Brooklyn Baseball Company, L.L.C. (‘BBC’) of the City’s share of Retail Net Profit from the Surf Avenue Rental Area, along with the accompanying Statement of Retail Net Profit; and reporting of income from ‘special events’ at KeySpan Park.” The specific issues raised by the Cyclones and our rebuttals are included in the body of the report. Parks agreed with the audit’s findings and recommendations and issued a “Notice To Cure” to the Cyclones requiring that they implement the audit’s recommendations.

The full texts of the Cyclones and Parks comments are included as addenda to this report.

FINDINGS AND RECOMMENDATIONS

For the audit period, June 15, 2001, through December 31, 2002, Parks appropriately paid the Cyclones \$200,000 for their share of the parking fees from the City lot adjacent to the stadium. The Cyclones paid the City \$1,131,196 in base rent fees (\$621,934 in 2001 and \$509,262 in 2002), reported “actual attendance” of 358,505 patrons and “no-shows” of 143,655 patrons in their calculation for base rent, and reported Special Event revenue of \$179,152 for the two years.

However, we found significant weaknesses in the Cyclones internal controls that prevented us from determining whether “actual attendance,” “no-shows,” and recreation area attendees were reported accurately. Consequently, we could not determine whether the Cyclones paid the correct fees due the City.

In addition, the Cyclones did not report \$98,600 recorded on its books as rent revenue from the Surf Avenue retail space and therefore owe the City \$49,300 in additional fees. It should be noted that subsequent to the issuance of the preliminary draft report, the Cyclones remitted a check for \$67,283, and a Statement of Retail Net Profit to Parks for the period May 1, 2001, to April 30, 2003, that indicated gross revenues of \$171,386, and expenses of \$36,820. However, since documents to support the amount of expenses claimed were not submitted, we would not be able to verify the validity of the reported amounts until the next audit.

Also, the Cyclones did not deposit \$37,500 into a sinking fund, as required by the lease. Subsequent to the issuance of the preliminary draft report, the Cyclones remitted a check for \$50,000 to Parks on May 30, 2003, to cover the first two years of payments to the sinking fund.

Moreover, the Cyclones did not report Special Event income totaling \$101,473. However, even if this amount had been reported, the Cyclones would not have reached the net income threshold at which additional Special Event fees become due.

Attendance Recording and Reporting Weaknesses

For the 2001 and 2002 baseball seasons, the Cyclones reported “actual attendance” of 195,488 and 163,017, respectively. However, weaknesses in the Cyclones internal controls over attendance prevented us from determining whether the Cyclones reported their attendance to Parks accurately and whether all required fees were paid to the City. Article 3, § 3.01(a)(ii) of the lease requires that “Actual Attendance for a particular Lease Year means the total number of ticket-holders, other than Complimentary Tickets and holders of Recreation Area Tickets, who actually attended Team Home Games during the applicable Lease Year. Such total shall be based upon the **turnstile count** [emphasis added] of ticket-holders, from which shall be deducted the number of holders of Complimentary Tickets and holders of Recreation Area Tickets reflected in such count, for all Team Home Games.”

The Cyclones do not use turnstile counts to record and report attendance. Instead, they count ticket stubs at the end of each game, identifying the different ticket categories on the Daily Turnstile reports. This approach is not adequate to ensure that all ticket stubs are included in the

count. A complete count can be assured only by using the lease mandated turnstile counts along with the ticket stubs.

Our attempt to use the turnstile counts to verify attendance was unsuccessful for the following reasons:

- The Cyclones used eight turnstiles interchangeably at the stadium entrances, but recorded the counts from only six turnstiles on the Daily Turnstile reports. None of the eight turnstiles has an affixed assigned number; therefore, a turnstile listed as “number one” on the Daily Turnstile report for one game may be listed as a different number or may not be used at all for the next game, thus preventing the recording of complete game attendance totals and continuous turnstile counts.
- Closing turnstile entry totals from one game were not listed as the opening turnstile entry totals on the Daily Turnstile reports for the next game in 644 of 924 cases (70%). For example, on June 23, 2002, the closing turnstile entry total was 24,398 and opening entry at the very next game was 9,029. In another example, on July 25, 2001, the closing turnstile entry total was 1,520, but the very next opening turnstile entry was 21,920. In addition, there were 103 cases over the two-year period where no entries were made on the Daily Turnstile reports, i.e., they were blank. (See Schedules of Closing and Opening Turnstile Entries for the 2001 and 2002 Seasons in Appendices I and II.)
- Turnstile counts did not match and could not be reconciled with the physical ticket stub count for the reported attendance on the Daily Turnstile reports. For the 2001 season, the reported turnstile count was 220,953, and the reported ticket stub count was 236,773, a difference of 15,820. For 2002, the reported turnstile count was 236,687, while the reported ticket stub count was 204,017, a difference of 32,670. The Cyclones did not reconcile and could not explain these differences.

By not maintaining accurate turnstile counts and by not maintaining adequate documentation to support the reported number of “actual attendance,” we could not determine whether the Cyclones paid the correct base rent fees to the City.

Cyclones Response: “The Comptroller misreads the letter and intent of the Lease and ignores the realities of BBC’s business in concluding that BBC does not ‘maintain accurate turnstile counts’ or ‘maintain adequate documentation to support the reported number of ‘actual attendance.’ . . . In fact, BBC has at all times maintained accurate turnstile counts and incorporated into its business practices control methods designed to ensure that the City receives an accurate count of ‘Actual Attendance,’ leading to the calculation of base rent payable to the City as set forth in the Lease. . . .

“The Lease . . . expresses the end to be achieved—an accurate reading of the total number of ticket-holders . . . who actually attended Brooklyn Cyclones home games—but leaves to BBC’s discretion the means to accomplish this calculation, provided that BBC records its ‘turnstile count of ticket-holders’ in a ‘fair, appropriate and customary manner.’

“In each year of the Brooklyn Cyclones’ existence, BBC has implemented and utilized procedures that are necessary to ensure the accurate reporting of Actual Attendance. Reliance solely on the closing and opening numbers of particular turnstiles would not, as the Audit Report suggests, permit BBC to obtain an accurate ‘turnstile count of ticket-holders.’ For example, KeySpan Park turnstiles are used for ingress by persons other than ticket-holders in between and during games (by, for example, BBC’s day-of-game employees, tour groups at KeySpan Park, and others). . . . BBC performs manual counts and re-counts of all ticket stubs to ensure that its count of ticket-holders passing through its turnstiles for each game is accurate. . . . These procedures are ‘fair, appropriate and customary’ and, moreover, the only means available to BBC in 2001 and 2002, the period covered by the Audit Report, to ensure an accurate turnstile count. . . .

“Thus, BBC’s manual ticket count is not only beneficial to the calculation of ‘Actual Attendance’ under the Lease; it is necessary.

“Notably, the Audit Report never concludes that BBC’s manual count, or its ultimate calculation of ‘Actual Attendance,’ has ever been inaccurate in any respect. Nevertheless, BBC is as interested as the Comptroller in ensuring that its count of Actual Attendance continues to be accurate. BBC will re-examine its procedures and consider the Comptroller’s recommendations . . . to determine whether the implementation of any or all of the recommendations is feasible and a valuable supplement to BBC’s existing practices.”

Auditor Comment: Contrary to the Cyclones response, the lease does not provide them discretion in the recording and reporting of turnstile counts. The section in the lease referred to by the Cyclones deals with how they should record and report entry by persons who are not game-ticket holders, including those with complimentary and Recreation Area tickets. Such entries are to be deducted from turnstile counts. As previously noted, the lease states very clearly that actual attendance total is to be based on the turnstile count.

In addition, the Cyclones seem to believe that the audit concluded that their manual count or calculation of actual attendance “has never been inaccurate in any respect.” This is obviously not so. Again, as the audit stated, the absence of accurate turnstile counts and the absence of adequate documentation to support the “actual attendance” numbers reported by the Cyclones prevented us from determining whether the Cyclones paid the correct base rent fees to the City. Nevertheless, we are gratified that the Cyclones, despite their apparent belief that they report “actual attendance” in accordance with lease provisions, agreed to re-examine their procedures and consider our recommendations.

**The Cyclones Owed the City
\$49,300 for Surf Avenue Retail Rent**

The Cyclones owe the City \$49,300 for income derived from the retail rental space along Surf Avenue. In addition, the Cyclones did not submit quarterly Retail Statements of Net Profit

to the City. Article 20, § 20.01(a) and § 20.02(a), of their lease requires that the Cyclones pay 50 percent of the Retail Net Profit and submit quarterly Retail Statements that detail gross income, operating expenses, net profit, and supporting calculations with the required payments within 30 days after the close of the quarters ending on October 31, January 31, April 30, and July 31.

Cyclones books and records indicated that the Surf Avenue retail rent revenue for the two-year audit period was \$98,600, for which the Cyclones owe the City 50 percent—\$49,300. Although the Cyclones are allowed to deduct related operating expenses, the books and records indicated no such costs during the audit period. We should note that in a December 5, 2002, letter to the Cyclones, Parks stated that payment for the Retail Net Profit was due by November 30, 2002. Parks issued a follow-up letter to the Cyclones on February 6, 2003, requesting their quarterly Retail Statements of Net Profit and related payments. Nevertheless, the Cyclones did not submit the Retail Statements nor the fees due.

It should be noted that subsequent to the issuance of the preliminary draft report, the Cyclones remitted a check for \$67,283, and a statement of Retail Net Profit to Parks for the period May 1, 2001, to April 30, 2003, in which the Cyclones reported gross revenues of \$171,386, and expenses of \$36,820. However, since we were never provided any documentation to support these amounts, we were unable to confirm whether the appropriate fees were paid.

Cyclones Response: “As conceded by the Comptroller in the Audit Report, with respect to payment of the ‘Retail Area Rent’ to Landlord, BBC has ‘remitted a check for \$67,283, and a statement of Retail Net Profit to Parks for the period May 1, 2001 to April 30, 2003, in which the Cyclones reported gross revenues of \$171,386, and expenses of \$36,820.’

“The Audit Report is incorrect when it suggests that BBC’s books and records indicated no operating expenses related to the Surf Avenue Retail Area . . . BBC’s books and records reflected various expenses that were, in part, attributable to that area of the premises. The Lease provides that ‘the portion of such costs actually and reasonably attributable to the [management, operation, maintenance and/or repair] services for the Surf Avenue Retail Area . . . shall be treated as Retail Operating Expenses.’ (Lease § 20.01(b)(iii).) Prior to paying the Retail Area Rent, BBC appropriately apportioned these expenses and included in Retail Operating Expenses the amounts attributable to the Surf Avenue Retail Area.

“Moreover, as BBC informed the Comptroller during a meeting prior to the release of the Audit Report, the Audit Report’s conclusion that BBC (even before its payment) owed or was due to pay any amount of Retail Area Rent is in error. With respect to the timing of BBC’s payments of Retail Area Rent to the City, Section 20.02(a) of the Lease states, in relevant part, as follows (with emphasis added):

‘Tenant shall pay to Landlord the Retail Area Rent in quarterly installments to be made within thirty (30) days after each October 31, January 31, April 30 and July 31 of the Term, commencing with the first such date that is at least six months after Substantial Completion of the Recreation Retail Project (if any).’

“The Recreation Retail Project was never begun, much less substantially completed. Accordingly, no Retail Area Rent payments are yet due. Nevertheless, in the spirit of cooperation, on May 30, 2003, BBC voluntarily remitted to the City all Retail Area Rent that would have been due to date had the Recreation Retail Project been completed at least six months before the payment.

“Additionally, with its payment to the City, BBC submitted the accompanying Statement of Retail Net Profit contemplated by Section 20.02(b) of the Lease, reflecting Retail Gross Income, Retail Operating Expenses and Retail Net Profit, and the calculation of the Retail Area Rent payment. The Audit report neglects to report this fact, and erroneously states that BBC ‘did not submit the Retail Statements nor the fees due.’ . . . As offered by BBC in the exit conference with respect to the Comptroller’s audit, if the Comptroller requests additional documentation, BBC would be willing to provide full back-up documentation to further support the calculations set forth in the Statement.”

Auditor Comment: The lease addresses two retail areas—the Surf Avenue Retail Area and the Recreational Retail Area. We agree that no payments are due on the Recreation Retail Area because the Recreation Retail project was never undertaken, as the Cyclones state; however, the Cyclones have been collecting rents at the Surf Avenue Retail Area since March 2002. In addition, as previously stated, Parks sent the Cyclones a letter on December 5, 2002, stating that payment for the Retail Net Profit was due by November 30, 2002. Parks issued a follow-up letter to the Cyclones on February 6, 2003, requesting their quarterly Retail Statements of Net Profit and related payments. Obviously, Parks agrees that the Surf Avenue Area rental income should have been reported and the applicable portion paid to the City.

Compliance Issues

The Cyclones adhered to certain non-revenue-related requirements of the agreement. They maintained the required insurance coverage that named the City as an additional insured, paid their water and sewer charges, and remitted the required \$50,000 security deposit to Parks.

However, the Cyclones have yet to establish the required sinking fund account. Section 10.09 of the agreement requires that the Cyclones contribute \$25,000 a year into a sinking fund in two equal installments no later than March 1 and October 31 of each lease year to pay for any capital work at the stadium. Through December 31, 2002, the Cyclones should have deposited \$37,500 into the fund—\$12,500 for the six-month period July to December 2001, and \$25,000 for 2002. Subsequent to the issuance of the preliminary draft report, the Cyclones remitted a check for \$50,000 to Parks on May 30, 2003, to cover the first two years of payments to the sinking fund.

Cyclones Response: “The Audit Report continues to refer to the establishment of a ‘required sinking fund’ account. . . . The Audit Report correctly notes that, on May 30, 2003, BBC made a payment of \$50,000 to the City—the entire required

contribution to date. . . . However, the Audit Report erroneously suggests that BBC had ‘yet to establish the required sinking fund account’ before the payment was made. . . . Although the Lease provides that BBC ‘shall pay the amount of Twenty-Five Thousand Dollars (\$25,000) . . . into a sinking fund . . . ,’ it does not specify the mechanics for the payment of such money and, contrary to the assertion in the Audit Report, does not provide for establishment of any ‘sinking fund account.’ BBC had in fact established a separate account for those funds even before delivering the funds to the City.”

Auditor Comment: Although the Cyclones may be technically correct that the lease does not specify which party was to set up the “sinking fund,” they were nevertheless required to make the payments cited in the audit. The initial payment was due October 31, 2001, yet it took this audit to induce the Cyclones to make their required sinking fund payments—on May 30, 2003, 20 months after the initial due date.

The Cyclones Did Not Report \$101,473 in Special Event Net Income

The Cyclones did not report \$101,473 in Special Event net income to the City, as required by Article 4, § 4.05 (b) ii, of the agreement. For 2001 and 2002, the Cyclones reported Special Event net income of \$90,552 and \$88,600, respectively. However, Cyclones books and records indicated that actual Special Event revenues totaled \$139,970 for 2001 and \$140,655 for 2002. The differences were attributed to unreported baseball camp and concession revenues. Even if these amounts had been reported, the Cyclones would not have reached the annual \$143,000 net income threshold at which additional Special Event fees become due.

Cyclones Response: “The Audit Report correctly notes . . . that no payments are due to the City as a share of Shared Special Event Net Income because the minimum threshold of \$143,000 in net income was not met. . . . Nevertheless, because the Audit Report refers to alleged ‘unreported’ Special Event net income, we must clarify the record.

“First, the Audit Report only refers to Special Event Revenues, and does not at all address deductible Special Event Expenses. . . . The Comptroller’s attempt to draw some significance from a disparity between Special Event revenues and Special Event net income is meaningless absent a discussion of deductible expenses.

“Moreover, no Special Event Revenues were ‘unreported.’ The Comptroller’s claim that certain ‘baseball camp and concession revenues’ were unreported is incorrect. . . .The ‘baseball camps’ conducted by BBC were not Special Events at all, and BBC was not required to report any revenue from these events as Special Event Revenues. Section 4.03(b) of the Lease defines ‘Special Events’ as being event other than ‘Team Events.’ The ‘baseball camps’ referenced in the Audit Report were opportunities for youths to work out with members of the Brooklyn

Cyclones baseball team. ‘Team Events,’ under Article 1 of the Lease, include ‘promotional or community outreach activities including baseball or baseball-related events, such as youth baseball clinics and autograph sessions’ (emphasis added). This definition plainly includes the ‘baseball camp’ to which the Audit Report refers and, accordingly, the event was a Team Event and not a Special Event. Special Event Revenues include only those revenues ‘demonstrably arising out of’ Special Events. . . . Revenue from youth baseball clinics is not included within Special Event Revenues, and BBC was not obligated to report revenues from such Team Events in connection with Special Events. With regard to ‘concession revenues,’ the Audit Report fails to mention that, before the Audit Report was issued, BBC provided the City with statements that included the amount of BBC’s food and beverage commissions that demonstrably arose out of Special Events.

“BBC will appropriately report Special Event income and expenses.”

Auditor Comment: We are again gratified that the Cyclones will comply with the terms of their lease agreement by “appropriately reporting Special Event income and expenses.” However, we are perplexed that the Cyclones contend that the camps they ran were promotional or community outreach activities. Groups that provide community programs do not charge individuals \$100 to \$400 to participate. The same can be said for charging for autographs, clinics, and work-out sessions.

In addition, contrary to the response, over the two-year audit period, the Cyclones generated more than \$50,000 in concession revenue not related to games played that they did not include in their reported revenue—until this report was issued. Although the Cyclones provided us the amounts of concession revenues earned from special events, they did not include these concession revenues on their Statement of Special Event Net Income.

Recommendations

We recommend that the Cyclones:

1. Base “actual attendance” on their turnstile counts, as required by the lease. In that regard, the Cyclones should:
 - specifically label and identify each turnstile;
 - record the closing and opening count for each turnstile for each game;
 - ensure that each opening turnstile count matches the previous closing game counts;
 - secure and monitor all turnstiles to ensure that they are used only by game attendees and are not altered in any way to affect the recorded counts; and

- reconcile turnstile counts with the physical ticket counts.
2. Reconcile the Daily Turnstile reports with the Season Summary and the Performance Sales reports.
 3. Remit all quarterly fees due from the Surf Avenue rental space with the required quarterly Statement of Retail Net Profit, in accordance with the lease agreement.
 4. Ensure that income and expenses are appropriately reported on the Special Event statements submitted to Parks.

We recommend that Parks:

5. Ensure that the Cyclones pay the City all fees due from the retail rent space, in accordance with the lease.
6. Ensure that the Cyclones implement the report's recommendations for enhancing their internal controls and reporting procedures.

Parks Response: Parks responded that: "DPR [Parks] has issued the attached 'Notice To Cure' (NTC) to BBC requiring BBC to implement internal control and record keeping Recommendations 1 and 2. DPR's internal auditor will conduct a follow-up review to ensure that BBC complies with these recommendations. Also, DPR has required that BBC continue to remit quarterly fees due from the Surf Avenue retail space (Recommendation 3), and comply with audit Recommendation 4."

In its "Notice To Cure," Parks acknowledged that the Cyclones remitted, subsequent to the issuance of the preliminary draft report, \$67,283 for revenue from the Surf Avenue retail space, and \$50,000 pertaining to payments for the sinking fund. In response to Recommendations 5 and 6, Parks stated, "Both of these recommendations have been addressed by DPR's issuance of the above-mentioned NTC to BBC."

Brooklyn Baseball Company, LLC
Schedule of Opening and Closing Turnstile Entries
2001 Season (June 25, 2001 - September 8, 2001)

Dates	Entries	Gate 1	Gate 2	Gate 3	Gate 4	Gate 5	Gate 6	Total
06/25/01	Closing	-	-	-	-	-	-	-
06/26/01	Opening	-	-	-	-	-	-	-
	Differences	-	-	-	-	-	-	-
06/26/01	Closing	-	-	-	-	-	-	-
06/27/01	Opening	1,990	2,126	3,083	2,805	987	795	11,786
	Differences	(1,990)	(2,126)	(3,083)	(2,805)	(987)	(795)	(11,786)
06/27/01	Closing	3,074	3,082	4,343	3,969	1,427	1,417	17,312
06/29/01	Opening	3,084	3,091	4,443	3,969	1,224	1,426	17,237
	Differences	(10)	(9)	(100)	0	203	(9)	75
06/29/01	Closing	4,418	4,082	5,433	5,585	1,961	1,975	23,454
07/01/01	Opening	4,614	4,239	5,791	5,944	1,756	2,019	24,363
	Differences	(196)	(157)	(358)	(359)	205	(44)	(909)
07/01/01	Closing	5,629	5,273	6,881	6,928	2,386	2,382	29,479
07/02/01	Opening	5,643	5,311	6,890	6,928	2,233	2,380	29,385
	Differences	(14)	(38)	(9)	0	153	2	94
07/02/01	Closing	6,676	6,070	8,197	8,118	2,586	2,806	34,453
07/03/01	Opening	6,676	6,074	8,197	8,069	2,575	2,989	34,580
	Differences	0	(4)	0	49	11	(183)	(127)
07/03/01	Closing	7,682	7,236	9,781	9,300	3,215	3,614	40,828
07/08/01	Opening	8,453	8,055	10,607	10,255	-	3,854	41,224
	Differences	(771)	(819)	(826)	(955)	3,215	(240)	(396)
07/08/01	Closing	9,483	9,030	11,777	11,428	-	4,554	46,272
07/09/01	Opening	9,486	9,031	11,777	11,430	3,818	4,557	50,099
	Differences	(3)	(1)	0	(2)	(3,818)	(3)	(3,827)
07/09/01	Closing	10,707	10,042	12,705	12,498	4,214	5,372	55,538
07/11/01	Opening	10,707	10,042	12,707	-	4,214	5,372	43,042
	Differences	0	0	(2)	12,498	0	0	12,496
07/11/01	Closing	11,903	11,351	14,241	-	4,731	6,184	48,410
07/12/01	Opening	11,973	11,395	14,241	12,511	4,532	6,190	60,842
	Differences	(70)	(44)	0	(12,511)	199	(6)	(12,432)
07/12/01	Closing	13,207	12,591	15,459	13,735	5,141	6,819	66,952
07/13/01	Opening	13,207	12,611	15,459	13,735	5,147	6,821	66,980
	Differences	0	(20)	0	0	(6)	(2)	(28)
07/13/01	Closing	13,985	13,787	16,700	15,089	5,830	7,625	73,016
07/15/01	Opening	13,985	13,787	16,700	15,090	4,855	-	64,417
	Differences	0	0	0	(1)	975	7,625	8,599
07/15/01	Closing	15,212	15,212	17,817	16,282	6,544	-	71,067
07/17/01	Opening	15,212	15,212	17,816	15,501	6,545	8,319	78,605
	Differences	0	0	1	781	(1)	(8,319)	(7,538)

- Turnstile Entry Missing

Brooklyn Baseball Company, LLC
Schedule of Opening and Closing Turnstile Entries
2001 Season (June 25, 2001 - September 8, 2001)

Dates	Entries	Gate 1	Gate 2	Gate 3	Gate 4	Gate 5	Gate 6	Total
07/17/01	Closing	16,376	15,950	18,868	16,282	7,024	9,268	83,768
07/20/01	Opening	16,386	16,014	18,876	17,505	9,316	7,062	85,159
	Differences	(10)	(64)	(8)	(1,223)	(2,292)	2,206	(1,391)
07/20/01	Closing	17,758	17,009	20,012	18,557	10,299	7,897	91,532
07/21/01	Opening	17,760	17,053	19,999	18,637	7,499	10,309	91,257
	Differences	(2)	(44)	13	(80)	2,800	(2,412)	275
07/21/01	Closing	18,729	17,863	21,377	19,893	8,098	11,304	97,264
07/22/01	Opening	18,762	17,863	21,403	19,915	8,098	11,304	97,345
	Differences	(33)	0	(26)	(22)	0	0	(81)
07/22/01	Closing	19,727	18,933	22,838	20,793	8,672	12,232	103,195
07/23/01	Opening	19,731	18,936	22,850	20,805	8,612	12,253	103,187
	Differences	(4)	(3)	(12)	(12)	60	(21)	8
07/23/01	Closing	20,764	20,199	24,118	21,736	8,967	12,810	108,594
07/25/01	Opening	21,036	20,486	24,396	500	12,886	-	79,304
	Differences	(272)	(287)	(278)	21,236	(3,919)	12,810	29,290
07/25/01	Closing	22,620	22,146	25,509	1,520	13,959	-	85,754
07/27/01	Opening	22,620	22,151	25,584	21,920	1,521	13,959	107,755
	Differences	0	(5)	(75)	(20,400)	12,438	(13,959)	(22,001)
07/27/01	Closing	23,391	23,070	26,676	23,130	2,524	15,087	113,878
08/02/01	Opening	23,424	23,084	26,786	23,157	2,530	15,088	114,069
	Differences	(33)	(14)	(110)	(27)	(6)	(1)	(191)
08/02/01	Closing	24,084	24,211	28,342	24,143	3,564	15,926	120,270
08/03/01	Opening	24,097	24,211	28,331	24,149	3,564	15,934	120,286
	Differences	(13)	0	11	(6)	0	(8)	(16)
08/03/01	Closing	24,734	25,158	29,590	25,305	4,925	16,776	126,488
08/04/01	Opening	24,761	25,205	29,673	-	4,925	-	84,564
	Differences	(27)	(47)	(83)	25,305	0	16,776	41,924
08/04/01	Closing	26,077	26,539	31,449	-	6,437	-	90,502
08/05/01	Opening	26,105	26,539	25,346	6,440	-	-	84,430
	Differences	(28)	0	6,103	(6,440)	6,437	-	6,072
08/05/01	Closing	27,439	27,794	27,134	8,272	-	-	90,639
08/09/01	Opening	27,502	27,734	31,498	27,418	8,043	16,954	139,149
	Differences	(63)	60	(4,364)	(19,146)	(8,043)	(16,954)	(48,510)
08/09/01	Closing	28,299	28,365	32,361	28,283	8,942	17,702	143,952
08/10/01	Opening	28,229	28,365	32,361	17,702	-	-	106,657
	Differences	70	0	0	10,581	8,942	17,702	37,295
08/10/01	Closing	29,068	29,182	33,805	18,682	-	-	110,737
08/12/01	Opening	29,129	29,001	33,805	28,289	8,945	18,682	147,851
	Differences	(61)	181	0	(9,607)	(8,945)	(18,682)	(37,114)

- Turnstile Entry Missing

Brooklyn Baseball Company, LLC
Schedule of Opening and Closing Turnstile Entries
2001 Season (June 25, 2001 - September 8, 2001)

Dates	Entries	Gate 1	Gate 2	Gate 3	Gate 4	Gate 5	Gate 6	Total
08/12/01	Closing	30,071	29,877	35,038	29,151	9,722	19,544	153,403
08/13/01	Opening	30,041	29,879	35,038	29,152	9,723	19,544	153,377
	Differences	30	(2)	0	(1)	(1)	0	26
08/13/01	Closing	31,095	30,592	36,294	30,342	10,661	20,341	159,325
08/16/01	Opening	30,949	30,461	36,328	30,343	10,663	20,397	159,141
	Differences	146	131	(34)	(1)	(2)	(56)	184
08/16/01	Closing	31,775	31,215	37,603	31,651	11,221	21,701	165,166
08/17/01	Opening	31,746	31,215	37,695	31,652	11,269	21,631	165,208
	Differences	29	0	(92)	(1)	(48)	70	(42)
08/17/01	Closing	33,175	32,234	38,793	32,811	12,252	22,708	171,973
08/20/01	Opening	38,793	32,126	32,606	32,812	12,357	22,909	171,603
	Differences	(5,618)	108	6,187	(1)	(105)	(201)	370
08/20/01	Closing	40,201	3,317	33,669	34,150	13,069	23,664	148,070
08/25/01	Opening	33,460	33,889	40,276	-	13,102	23,650	144,377
	Differences	6,741	(30,572)	(6,607)	34,150	(33)	14	3,693
08/25/01	Closing	34,759	35,010	41,674	-	14,068	24,804	150,315
08/27/01	Opening	34,759	35,010	41,675	-	14,070	24,899	150,413
	Differences	0	0	(1)	-	(2)	(95)	(98)
08/27/01	Closing	36,278	36,064	42,921	-	15,003	25,661	155,927
08/28/01	Opening	36,243	32,956	42,939	36,011	15,003	25,654	188,806
	Differences	35	3,108	(18)	(36,011)	0	7	(32,879)
08/28/01	Closing	37,205	33,890	44,038	37,339	15,838	26,565	194,875
08/30/01	Opening	37,234	33,187	44,189	-	15,838	26,565	157,013
	Differences	(29)	703	(151)	37,339	0	0	37,862
08/30/01	Closing	38,240	34,064	45,503	-	16,706	27,285	161,798
08/31/01	Opening	38,258	33,967	-	-	-	27,299	99,524
	Differences	(18)	97	\$ 45,503	\$ -	16,706	(14)	62,274
08/31/01	Closing	39,432	35,350	-	-	17,692	28,248	120,722
09/01/01	Opening	39,412	35,341	47,011	-	17,692	28,248	167,704
	Differences	20	9	(47,011)	-	0	0	(46,982)
09/01/01	Closing	40,659	36,450	48,950	-	18,538	29,182	173,779
09/02/01	Opening	40,659	36,450	48,950	38,505	18,541	29,195	212,300
	Differences	0	0	0	(38,505)	(3)	(13)	(38,521)
09/02/01	Closing	41,737	37,423	50,119	39,572	19,564	30,103	218,518
09/07/01	Opening	41,779	36,450	50,279	39,453	19,594	30,103	217,658
	Differences	(42)	973	(160)	119	(30)	0	860
09/07/01	Closing	42,948	37,642	51,758	40,881	20,518	30,818	224,565
09/08/01	Opening	42,947	37,652	51,799	40,888	20,519	30,820	224,625
	Differences	1	(10)	(41)	(7)	(1)	(2)	(60)

- Turnstile Entry Missing

Brooklyn Baseball Company, LLC
Schedule of Opening and Closing Turnstile Entries
2002 Season (June 19, 2002 - September 4, 2002)

Dates	Entries	Gate 1	Gate 2	Gate 3	Gate 4	Gate 5	Gate 6	Total
06/19/02	Closing	46,066	38,021	54,885	44,016	22,308	32,623	237,919
06/21/02	Opening	46,068	38,027	54,889	44,079	22,308	32,624	237,995
	Differences	(2)	(6)	(4)	(63)	0	(1)	(76)
06/21/02	Closing	46,851	38,611	56,489	45,232	23,313	33,467	243,963
06/22/02	Opening	46,851	38,611	56,492	45,232	23,313	33,467	243,966
	Differences	0	0	(3)	0	0	0	(3)
06/22/02	Closing	47,994	39,329	57,935	46,434	23,818	34,188	249,698
06/23/02	Opening	48,009	39,337	57,935	46,434	23,824	34,201	249,740
	Differences	(15)	(8)	0	0	(6)	(13)	(42)
06/23/02	Closing	48,885	40,309	59,509	47,605	24,398	35,011	255,717
06/25/02	Opening	48,885	40,002	59,509	47,605	9,029	377	205,407
	Differences	0	307	0	0	15,369	34,634	50,310
06/25/02	Closing	50,209	40,712	60,869	48,837	9,043	692	210,362
06/29/02	Opening	50,211	40,712	60,869	48,837	-	-	200,629
	Differences	(2)	0	0	0	9,043	692	9,733
06/29/02	Closing	51,319	41,444	62,200	48,837	-	-	203,800
06/30/02	Opening	51,320	41,451	62,220	-	9,100	847	164,938
	Differences	(1)	(7)	(20)	48,837	(9,100)	(847)	38,862
06/30/02	Closing	52,311	42,289	63,641	50,113	9,121	1,101	218,576
07/01/02	Opening	52,311	42,289	63,641	50,713	9,121	1,103	219,178
	Differences	0	0	0	(600)	0	(2)	(602)
07/01/02	Closing	53,199	42,874	64,843	52,049	9,121	1,395	223,481
07/02/02	Opening	53,199	9,140	64,843	52,050	1,397	1,397	182,026
	Differences	0	33,734	0	(1)	7,724	(2)	41,455
07/02/02	Closing	54,285	9,187	65,506	53,313	1,692	1,906	185,889
07/03/02	Opening	54,285	43,287	65,506	53,313	9,189	-	225,580
	Differences	0	(34,100)	0	0	(7,497)	1,906	(39,691)
07/03/02	Closing	55,072	43,916	66,534	54,570	9,440	-	229,532
07/06/02	Opening	55,073	43,916	5,345	54,752	9,440	1,938	170,464
	Differences	(1)	0	61,189	(182)	0	(1,938)	59,068
07/06/02	Closing	56,206	44,902	6,795	56,175	10,079	2,366	176,523
07/13/02	Opening	57,168	46,049	69,351	56,888	10,553	2,955	242,964
	Differences	(962)	(1,147)	(62,556)	(713)	(474)	(589)	(66,441)
07/13/02	Closing	57,168	46,049	69,351	56,888	10,553	2,955	242,964
07/15/02	Opening	57,172	46,055	69,379	56,893	2,967	2,967	235,433
	Differences	(4)	(6)	(28)	(5)	7,586	(12)	7,531
07/15/02	Closing	58,217	46,764	70,294	57,768	3,230	3,230	239,503
07/19/02	Opening	58,283	46,764	70,300	57,768	10,918	3,242	247,275
	Differences	(66)	0	(6)	0	(7,688)	(12)	(7,772)

- Turnstile Entry Missing

Brooklyn Baseball Company, LLC
Schedule of Opening and Closing Turnstile Entries
2002 Season (June 19, 2002 - September 4, 2002)

Dates	Entries	Gate 1	Gate 2	Gate 3	Gate 4	Gate 5	Gate 6	Total
07/19/02	Closing	59,270	47,071	71,195	58,318	11,256	3,447	250,557
07/21/02	Opening	-	47,080	71,200	58,319	11,275	3,459	191,333
	Differences	59,270	(9)	(5)	(1)	(19)	(12)	59,224
07/21/02	Closing		47,973	72,180	59,219	11,631	3,811	194,814
07/22/02	Opening	60,257	47,973	72,278	59,219	-	-	239,727
	Differences	(60,257)	0	(98)	0	11,631	3,811	(44,913)
07/22/02	Closing	61,118	48,746	73,545	59,919	-	-	243,328
07/24/02	Opening	61,122	48,748	73,545	59,919	11,781	4,091	259,206
	Differences	(4)	(2)	0	0	(11,781)	(4,091)	(15,878)
07/24/02	Closing	62,251	49,554	74,915	60,144	11,911	4,347	263,122
07/26/02	Opening	62,251	49,544	74,915	60,744	11,914	4,366	263,734
	Differences	0	10	0	(600)	(3)	(19)	(612)
07/26/02	Closing	63,382	50,216	76,411	61,796	12,292	4,669	268,766
07/27/02	Opening		50,216	76,425	61,797	12,292	4,670	205,400
	Differences	63,382	0	(14)	(1)	0	(1)	63,366
07/27/02	Closing	-	51,166	77,630	62,398	-	4,969	196,163
07/28/02	Opening	-	51,166	-	77,630	-	-	128,796
	Differences	-	0	77,630	(15,232)	-	4,969	67,367
07/28/02	Closing	-	52,213	-	78,578	-	-	130,791
07/29/02	Opening	63,428	52,213	78,578	62,854	5,261	12,047	274,381
	Differences	(63,428)	0	(78,578)	15,724	(5,261)	(12,047)	(143,590)
07/29/02	Closing	64,486	52,697	79,629	63,211	5,413	12,047	277,483
07/31/02	Opening	64,486	-	79,629	63,211	12,407	5,443	225,176
	Differences	0	52,697	0	0	(6,994)	6,604	52,307
07/31/02	Closing	66,051	-	81,250	64,225	12,785	5,707	230,018
08/01/02	Opening	66,052	-	81,250	64,225	-	-	211,527
	Differences	(1)	-	0	0	12,785	5,707	18,491
08/01/02	Closing	67,232	-	82,880	65,169	-	-	215,281
08/02/02	Opening	67,132	-	-	1,087	105	274	68,598
	Differences	100	-	82,880	64,082	(105)	(274)	146,683
08/02/02	Closing	68,546	-	-	66,256	13,330	6,244	154,376
08/04/02	Opening	68,546	53,690	83,366	66,261	-	-	271,863
	Differences	0	(53,690)	(83,366)	(5)	13,330	6,244	(117,487)
08/04/02	Closing	69,268	54,378	84,728	66,974	-	-	275,348
08/11/02	Opening	69,278	54,379	84,728	66,974	13,349	6,296	295,004
	Differences	(10)	(1)	0	0	(13,349)	(6,296)	(19,656)
08/11/02	Closing	70,257	55,224	85,876	67,879	13,648	6,496	299,380
08/16/02	Opening	70,584	55,392	86,301	68,103	13,668	6,573	300,621
	Differences	(327)	(168)	(425)	(224)	(20)	(77)	(1,241)

- Turnstile Entry Missing

Brooklyn Baseball Company, LLC
Schedule of Opening and Closing Turnstile Entries
2002 Season (June 19, 2002 - September 4, 2002)

Dates	Entries	Gate 1	Gate 2	Gate 3	Gate 4	Gate 5	Gate 6	Total
08/16/02	Closing	71,489	55,846	87,554	68,861	13,668	6,824	304,242
08/22/02	Opening	71,489	-	87,554	68,858	13,668	6,824	248,393
	Differences	0	55,846	0	3	0	0	55,849
08/22/02	Closing	72,372	-	88,951	69,603	13,689	7,037	251,652
08/23/02	Opening	72,372	56,183	88,951	-	13,689	7,037	238,232
	Differences	0	(56,183)	0	69,603	0	0	13,420
08/23/02	Closing	73,321	56,689	90,199	-	13,689	7,287	241,185
08/24/02	Opening	73,315	-	-	69,850	13,689	1,287	158,141
	Differences	6	56,689	90,199	(69,850)	0	6,000	83,044
08/24/02	Closing	73,950	57,160	-	70,557	13,689	1,349	216,705
08/25/02	Opening	73,950	57,160	91,113	70,558	13,689	7,349	313,819
	Differences	0	0	(91,113)	(1)	0	(6,000)	(97,114)
08/25/02	Closing	74,877	57,737	92,135	71,153	13,689	7,500	317,091
08/26/02	Opening	74,877	57,737	92,135	71,153	-	7,400	303,302
	Differences	0	0	0	0	13,689	100	13,789
08/26/02	Closing	75,863	58,379	93,558	71,812	-	7,674	307,286
08/27/02	Opening	75,863	58,379	93,558	71,812	13,689	7,674	320,975
	Differences	0	0	0	0	(13,689)	0	(13,689)
08/27/02	Closing	76,873	59,036	94,914	72,609	13,693	7,862	324,987
08/29/02	Opening	76,873	59,036	94,914	72,609	13,693	-	317,125
	Differences	0	0	0	0	0	7,862	7,862
08/29/02	Closing	77,523	59,283	95,610	72,864	13,693	-	318,973
09/01/02	Opening	77,527	59,283	95,611	72,865	13,693	7,891	326,870
	Differences	(4)	0	(1)	(1)	0	(7,891)	(7,897)
09/01/02	Closing	78,019	59,427	96,262	73,015	13,693	7,913	328,329
09/02/02	Opening	78,019	59,247	96,262	73,015	13,693	7,913	328,149
	Differences	0	180	0	0	0	0	180
09/02/02	Closing	78,611	59,431	96,850	73,016	13,693	7,919	329,520
09/03/02	Opening	78,613	59,431	96,850	-	7,919	13,693	256,506
	Differences	(2)	0	0	73,016	5,774	(5,774)	73,014
09/03/02	Closing	79,400	59,640	97,777	-	7,941	13,693	258,451
09/04/02	Opening	79,400	59,640	97,777	73,251	13,693	7,937	331,698
	Differences	0	0	0	(73,251)	(5,752)	5,756	(73,247)

10/17/02

Brooklyn Baseball Company, LLC
Document Request List
FN03 - 111A

We would appreciate the following documents as soon as possible.

1. Organizational Chart
2. Certified Financial Statements, 2001 – 2002.
3. Current stadium layout (e.g.: seating, concessionaire stands, restaurants, luxury suites, etc.)
4. General Ledgers, Trial Balances, and the corresponding chart of accounts for all revenue accounts, 2001 – 2002.
5. The following reports and statements remitted to the City with copy of payment checks for the 2001 and 2002 minor league baseball season:
 - Attendance Report
 - Statement of Annual Basic Charge
 - Statement of Shared Special Event Net Income
 - Statement of Signage Revenue
 - Statement of Retail Net Profit
6. Schedule of season ticket prices, 2001 – 2002.
7. Brooklyn Cyclone Pocket Schedule, 2001 – 2002.
8. Brooklyn Cyclones Yearbook, 2001 – 2002.
9. Insurance certificates (General Liability, Property, and Worker's Compensation), 2001 – 2002.
10. Proof of payment of insurance premiums, 2001 – 2002.
11. Security of \$50,000 deposited with Parks officials.
12. Water and Sewer billing statements and copy of payment checks, 2001 – 2002.

This list should **not** be considered all-inclusive. During the progress of the audit, additional requests may be made as considered necessary.

11/18/02

Brooklyn Baseball Company, LLC
Document Request List
FN03 - 111A

We would appreciate the following documents as soon as possible.

1. Journal entries of account 4513 - Other Events, 2001.
2. General Ledger of accounts 4410, 4415, 2035, for 2001 and 2002.
3. Turnstile and Takers Count Reports, 2001 and 2002
4. Agreements for the following Special Events held in 2001:
 - Boxing After Dark (Dibella Entertainment, America Presents, HBO)
 - Jamyn Reggae Tribute (Jamyns Production)
 - Corporate Outing (Meridian Residential Group)
 - Fantasy Camp (Legends of Baseball)
5. Agreements for the following Special Events held in 2002:
 - NY Mercantile Exchange
 - Legends of Baseball
 - NYPDS Fighting Finest – Police Athletic League (Boxing)
 - New York's Finest Baseball

This list should **not** be considered all-inclusive. During the progress of the audit, additional requests may be made as considered necessary.

12/10/02

Brooklyn Baseball Company, LLC
Document Request List
FN03 - 111A

We would appreciate the following documents as soon as possible.

1. Supporting schedule for the attendance figures submitted to Parks in 2001 and 2002.
2. General Ledger of accounts 4520 and 4820 for 2001 and 2002.
3. Sublicense Agreement with Oriental Palace.
4. Retail Operating Expenses of the Surf Avenue Retail Area for 2001 and 2002.
5. Computerized year-end ticket report for 2001 and 2002.
6. Capital Contributions of \$25,000 annually for 2001 and 2002.
7. Invoices and copies of check payments for the following Special Events held in 2001:
 - Boxing After Dark (Dibella Entertainment, America Presents, HBO)
 - Jamyn Reggae Tribute (Jamyns Production)
 - Corporate Outing (Meridian Residential Group)
 - Fantasy Camp (Legends of Baseball)
8. Invoices and copies of check payments for the following Special Events held in 2002:
 - NY Mercantile Exchange
 - Legends of Baseball
 - NYPDS Fighting Finest – Police Athletic League (Boxing)
 - New York's Finest Baseball

This list should **not** be considered all-inclusive. During the progress of the audit, additional requests may be made as considered necessary.

1/24/03

Brooklyn Baseball Company, LLC
Document Request List
FN03 - 111A

We would appreciate the following documents as soon as possible.

1. Microsoft Outlook Calendar of all events (community, charitable, and special events) during 2001 and 2002.
2. Insurance Policy for 2002.
3. Insurance premium invoices and copies of payments, July through December 2002.
4. Ticket stubs for 2001.

Previously Requested Documents (first request Dec. 10, 2002)

5. Retail Operating Expenses of the Surf Avenue Retail Area for 2001 and 2002.
6. Capital Contributions of \$25,000 annually for 2001 and 2002.

This list should **not** be considered all-inclusive. During the progress of the audit, additional requests may be made as considered necessary.

2/25/03

Brooklyn Baseball Company, LLC
Document Request List
FN03 - 111A

As of February 25, 2003 the following requested documents are still outstanding. We would appreciate the documents as soon as possible.

1. Statement of Special Event Net Income 2002.
2. Retail Operating Expenses of the Surf Avenue Retail Area for 2001 and 2002.
3. Capital Contributions of \$25,000 annually for 2001 and 2002.

Please mail the documents to:

City of New York Office of the Comptroller
One Centre Street
New York, NY 10007-2341
Room 1310

This list should **not** be considered all-inclusive. During the progress of the audit, additional requests may be made as considered necessary.

3/5/03

Brooklyn Baseball Company, LLC
Document Request List
FN03 - 111A

1. Oriental Palace Negotiated Settlement, if any.

As of March 5, 2003 the following requested documents are still outstanding. We would appreciate the documents as soon as possible.

2. Retail Operating Expenses of the Surf Avenue Retail Area for 2001 and 2002.
3. Capital Contributions of \$25,000 annually for 2001 and 2002.

Please mail the documents to:

City of New York Office of the Comptroller
One Centre Street
New York, NY 10007-2341
Room 1310

This list should **not** be considered all-inclusive. During the progress of the audit, additional requests may be made as considered necessary.

3/14/03

Brooklyn Baseball Company, LLC
Document Request List
FN03 - 111A

1. 2001, 2002 General Ledger for Baseball Camps.
2. 2001, 2002 Concession Commission Reports for Special Events.

As of March 14, 2003 the following requested documents are still outstanding. We would appreciate the documents as soon as possible.

1. Oriental Palace Negotiated Settlement, if any.
2. Retail Operating Expenses of the Surf Avenue Retail Area for 2001 and 2002.
3. Capital Contributions of \$25,000 annually for 2001 and 2002.

Please mail the documents to:

City of New York Office of the Comptroller
One Centre Street
New York, NY 10007-2341
Room 1310

Or fax to (212) 669-8078

This list should **not** be considered all-inclusive. During the progress of the audit, additional requests may be made as considered necessary.



Brooklyn Cyclones Baseball Club
Class A Affiliate of the New York Mets

June 18, 2003

VIA FEDERAL EXPRESS

Greg Brooks
Deputy Comptroller
The City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

Re: Audit Report for Brooklyn Baseball Company, L.L.C. ("BBC")

Dear Mr. Brooks:

I am writing in response to your letter of June 5, 2003, soliciting our comments to the draft report of the Comptroller's Office ("Comptroller") in connection with the Audit Report on the Compliance of Brooklyn Baseball Company, L.L.C., (The Cyclones) with Its Lease Agreement June 15, 2001-December 31, 2002, FN03-111A (the "Audit Report").

Only three issues remain in dispute: the method of reporting "actual attendance" at Brooklyn Cyclones baseball games at KeySpan Park; remittance by Brooklyn Baseball Company, L.L.C. ("BBC") of the City's share of Retail Net Profit from the Surf Avenue Retail Area, along with the accompanying Statement of Retail Net Profit; and the reporting of income from "special events" at KeySpan Park. The following summarizes our position with respect to the outstanding issues.

Reporting of Actual Attendance

The Comptroller misreads the letter and intent of the Lease¹ and ignores the realities of BBC's business in concluding that BBC does not "maintain[] accurate turnstile counts" or "maintain[] adequate documentation to support the reported number of 'actual attendance'" (Audit Report p. 8) In fact, BBC has at all times maintained accurate turnstile counts and incorporated into its business practices control methods designed to ensure that the City receives an accurate count of "Actual Attendance," leading to the calculation of base rent payable to the City as set forth in the Lease.

¹ "Lease," as used herein, refers to the Stadium Lease between the City of New York, acting by and through its Department of Parks and Recreation (the "City"), and BBC, dated as of June 1, 2001.



Section 3.01(a)(ii) of the Lease states, in relevant part, as follows:

“Actual Attendance” for a particular Lease Year means the total number of ticket-holders, other than holders of Complimentary Tickets and holders of Recreation Area Tickets, who actually attended Team Home Games during the applicable Lease Year. Such total shall be based upon the turnstile count of ticket-holders, from which shall be deducted the number of holders of Complimentary Tickets and holders of Recreation Area Tickets reflected in such count, for all Team Home Games, which Tenant shall be obligated to record in a fair, appropriate and customary manner.

The Lease thus expresses the end to be achieved – an accurate reading of the total number of ticket-holders (excluding two categories) who actually attended Brooklyn Cyclones home games – but leaves to BBC’s discretion the means to accomplish this calculation, provided that BBC records its “turnstile count of ticket-holders” in a “fair, appropriate and customary manner.”

In each year of the Brooklyn Cyclones’ existence, BBC has implemented and utilized procedures that are necessary to ensure the accurate reporting of Actual Attendance. Reliance solely on the closing and opening numbers of particular turnstiles would not, as the Audit Report suggests, permit BBC to obtain an accurate “turnstile count of ticket-holders.” For example, KeySpan Park turnstiles are used for ingress by persons other than ticket-holders in between and during games (by, for example, BBC’s day-of-game employees, tour groups at KeySpan Park, and others). If BBC were to base its “turnstile count of ticket-holders” solely upon the stand-alone “opening” and “closing” numbers recorded on the turnstiles themselves – as suggested by the Comptroller – the reading of the number of ticket-holders passing through the turnstiles would be inaccurate. Accordingly, BBC performs manual counts and re-counts of all ticket stubs to ensure that its count of ticket-holders passing through its turnstiles for each game is accurate. (Indeed, even if only ticket-holders passed through KeySpan Park’s turnstiles, a hand-count to confirm accuracy would be essential.) These procedures are “fair, appropriate and customary” and, moreover, the only means available to BBC in 2001 and 2002, the period covered by the Audit Report, to ensure an accurate turnstile count.²

Additionally, the “turnstile count of ticket-holders” is but one component of the “Actual Attendance” calculation, as BBC must also deduct from this amount “the number of holders of Complimentary Tickets and holders of Recreation Area tickets.” It is impossible to determine these deductions without a manual count of the tickets to calculate the number of ticket-holders who passed through BBC’s turnstiles holding tickets falling into these categories. Thus, BBC’s manual ticket count is not only beneficial to the calculation of “Actual Attendance” under the Lease; it is necessary.

Notably, the Audit Report never concludes that BBC’s manual count, or its ultimate calculation of “Actual Attendance,” has ever been inaccurate in any respect. Nevertheless, BBC is as interested as the Comptroller in ensuring that its count of Actual Attendance continues to be accurate. BBC will re-examine its procedures and consider the Comptroller’s recommendations

² BBC disputes the Audit Report’s conclusion that “[t]his approach is not adequate to ensure that all ticket stubs are included in the count” (Audit Report p. 8), and believes it to be a strength in BBC’s reporting procedure. Additionally, BBC notes that the Comptroller stated to BBC that it commenced – but did not finish – its own manual count.

(Audit Report p. 10, ¶¶ 1-2) to determine whether the implementation of any or all of the recommendations is feasible and a valuable supplement to BBC's existing practices.

Remittance of Surf Avenue Retail Area Rent and Statement of Net Profit

As conceded by the Comptroller in the Audit Report, with respect to payment of the "Retail Area Rent" to Landlord, BBC has "remitted a check for \$67,283, and a statement of Retail Net Profit to Parks for the period May 1, 2001 to April 30, 2003, in which the Cyclones reported gross revenues of \$171,386, and expenses of \$36,820."³ (Audit Report p. 9)

The Audit Report is incorrect when it suggests that BBC's books and records indicated no operating expenses related to the Surf Avenue Retail Area. (Audit Report p. 9) BBC's books and records reflected various expenses that were, in part, attributable to that area of the premises. The Lease provides that "the portion of such costs actually and reasonably attributable to the [management, operation, maintenance and/or repair] services for the Surf Avenue Retail Area . . . shall be treated as Retail Operating Expenses." (Lease § 20.01(b)(iii)) Prior to paying the Retail Area Rent, BBC appropriately apportioned these expenses and included in Retail Operating Expenses the amounts attributable to the Surf Avenue Retail Area.

Moreover, as BBC informed the Comptroller during a meeting prior to the release of the Audit Report, the Audit Report's conclusion that BBC (even before its payment) owed or was due to pay any amount of Retail Area Rent is in error. With respect to the timing of BBC's payments of Retail Area Rent to the City, Section 20.02(a) of the Lease states, in relevant part, as follows (with emphasis added):

Tenant shall pay to Landlord the Retail Area Rent in quarterly installments to be made within thirty (30) days after each October 31, January 31, April 30 and July 31 of the Term, commencing with the first such date that is at least six months after Substantial Completion of the Recreation Retail Project (if any).

The Recreation Retail Project was never begun, much less substantially completed. Accordingly, no Retail Area Rent payments are yet due. Nevertheless, in the spirit of cooperation, on May 30, 2003, BBC voluntarily remitted to the City all Retail Area Rent that would have been due to date had the Recreation Retail Project been completed at least six months before the payment.

Additionally, with its payment to the City, BBC submitted the accompanying Statement of Retail Net Profit contemplated by Section 20.02(b) of the Lease, reflecting Retail Gross Income, Retail Operating Expenses and Retail Net Profit, and the calculation of the Retail Area Rent payment. The Audit Report neglects to report this fact, and erroneously states that BBC "did not submit the Retail Statements nor the fees due." (Audit Report p. 9) As offered by BBC in the exit conference with respect to the Comptroller's audit, if the Comptroller requests additional documentation, BBC would be willing to provide full back-up documentation to further support the calculations set forth in the Statement.

The Comptroller's recommendation that BBC pay the amount of Retail Area Rent and submit a Statement of Retail Net Profit (Audit Report p. 10, ¶ 3) is moot (and, indeed, was moot prior to the date of the Audit Report). BBC requests that it be stricken before the final audit report is published.

³ The actual amounts were as follows: Retail Gross Income, \$171,385.50; Retail Operating Expenses, \$36,820.29; Retail Net Profit, \$134,565.21 (of which the City received 50%, equal to \$67,282.61).

Reporting of Special Events Net Income

The Audit Report correctly notes (at p. 9) that no payments are due to the City as a share of Shared Special Event Net Income because the minimum threshold of \$143,000 in net income was not met. (Lease § 4.05(c)(i)) Nevertheless, because the Audit Report refers to alleged “unreported” Special Event net income, we must clarify the record.

First, the Audit Report only refers to Special Event Revenues, and does not at all address deductible Special Event Expenses. (Lease § 4.05(c)(ii), (iv)) The Comptroller’s attempt to draw some significance from a disparity between Special Event revenues and Special Event net income is meaningless absent a discussion of deductible expenses.

Moreover, no Special Event Revenues were “unreported.” The Comptroller’s claim that certain “baseball camp and concession revenues” were unreported is incorrect. (Audit Report p. 9) The “baseball camps” conducted by BBC were not Special Events at all, and BBC was not required to report any revenue from these events as Special Event Revenues. Section 4.03(b) of the Lease defines “Special Events” as being events other than “Team Events.” The “baseball camps” referenced in the Audit Report were opportunities for youths to work out with members of the Brooklyn Cyclones baseball team. “Team Events,” under Article 1 of the Lease, include “promotional or community outreach activities including baseball or baseball-related events, such as youth baseball clinics and autograph sessions” (emphasis added). This definition plainly includes the “baseball camp” to which the Audit Report refers and, accordingly, the event was a Team Event and not a Special Event. Special Event Revenues include only those revenues “demonstrably arising out of” Special Events. (Lease § 4.05(c)(iii)) Revenue from youth baseball clinics is not included within Special Event Revenues, and BBC was not obligated to report revenues from such Team Events in connection with Special Events. With regard to “concession revenues,” the Audit Report fails to mention that, before the Audit Report was issued, BBC provided the City with statements that included the amount of BBC’s food and beverage commissions that demonstrably arose out of Special Events.

BBC will appropriately report Special Event income and expenses. (Audit Report p. 10, ¶ 4)

Additional Comments

Although only the issues addressed above remain in dispute, BBC would like to briefly address one additional issue.

The Audit Report continues to refer to the establishment of a “required sinking fund” account. (BBC pays money into a “Sinking Fund,” to be used to pay for the cost of any “Stadium Area Capital Work.” (Lease § 10.09)) The Audit Report correctly notes that, on May 30, 2003, BBC made a payment of \$50,000 to the City – the entire required contribution to date. (Audit Report p. 9) However, the Audit Report erroneously suggests that BBC had “yet to establish the required sinking fund account” before the payment was made. (*Id.*) Although the Lease provides that BBC “shall pay the amount of Twenty-Five Thousand Dollars (\$25,000) . . . into a sinking fund . . .,” it does not specify the mechanics for the payment of such money and, contrary to the assertion in the Audit Report, does not provide for establishment of any “sinking fund account.” BBC had in fact established a separate account for those funds even before delivering the funds to the City. BBC respectfully requests that the section entitled “Compliance Issues” (Audit Report p. 9) – which is entirely premised upon an erroneous reading of the Lease and, in any event, is

moot because BBC has given the city all money due to be contributed to the Sinking Fund – be omitted from the final audit report.

Conclusion

This letter should not be construed as taking any position with respect to the matters addressed in the Audit Report (for example, and without limitation, the Audit Report's purported summary of payments allegedly due to be paid by BBC) except as expressly stated herein. BBC respectfully reserves all of its rights and remedies with respect to the matters addressed in the Audit Report and otherwise.

In light of the foregoing, BBC recommends that the Comptroller revisit the conclusions embodied and recommendations made in the draft Audit Report with respect to the issues raised herein, and make changes to accommodate BBC's objections, comments and corrections as stated above prior to issuing the final report.

Please feel free to contact me if you have any questions regarding the foregoing.

Sincerely,

Jeff Wilpon (nhk)

Jeffrey S. Wilpon
Senior Executive Vice President & C.O.O.

cc: Joann Imohiosen, Commissioner-Revenue
Department of Parks & Recreation
of the City of New York
The Arsenal
830 Fifth Avenue
New York, NY 10021



City of New York
Parks & Recreation

Adrian Benepe
Commissioner

The Arsenal
Central Park
New York, New York 10021

Joanna G. Imchiosen
Assistant Commissioner
Revenue

(212) 360-3404
joanne.imchiosen@parks.nyc.gov

June 18, 2003

BY FAX AND MAIL

Mr. Greg Brooks
Deputy Comptroller
The City of New York
Office of the Comptroller
Executive Office
1 Centre Street
New York, NY 10007

**Re: Draft Audit Report On Brooklyn Baseball Company, L.L.C. (The Cyclones)
June 15, 2001 - December 31, 2002, FN03-111A, Dated June 5, 2003**

Dear Mr. Brooks:

This letter represents the Parks Department's (DPR), response to the recommendations contained in the subject audit of Brooklyn Baseball Company, L.L.C. (BBC).

DPR has issued the attached "Notice To Cure" (NTC) to BBC requiring BBC to implement internal control and record keeping Recommendations 1 and 2. DPR's internal auditor will conduct a follow-up review to ensure that BBC complies with these recommendations. Also, DPR has required that BBC continue to remit quarterly fees due from the Surf Avenue retail space (Recommendation 3), and comply with audit Recommendation 4 which also will be verified by our internal auditor in his follow-up review.

Recommendation 5 states that DPR should "Ensure that the Cyclones pay the City all fees due from the retail rent space, in accordance with the lease." Recommendation 6 states that DPR should "Ensure that the Cyclones implement the report's recommendations for enhancing their internal controls and reporting procedures." Both of these recommendations have been addressed by DPR's issuance of the above mentioned NTC to BBC.

Greg Brooks
June 18, 2003
Page 2

We wish to thank the Comptroller's audit staff for their work and efforts in performing this review.

Sincerely,



Joanne Imohiosen

cc: David Stark
Francisco Carlos
Susan Kupferman, Mayor's Office of Operations



**City of New York
Parks & Recreation**

Adrian Benepe
Commissioner

The Arsenal
Central Park
New York, New York 10021

Joanne G. Imohisen
Assistant Commissioner
Revenue

(212) 360-3404
joanne.imohisen@parks.nyc.gov

June 15, 2003

BY FAX AND MAIL

R.C. Reuteman
Senior Vice President
Business Affairs
Brooklyn Baseball Company, LLC
KeySpan Park
1904 Surf Avenue
Brooklyn, NY 11224

Re: NOTICE TO CURE

**Draft Audit Report On Brooklyn Baseball Company, L.L.C. (The Cyclones)
June 15, 2001 – December 31, 2002, FN03-111A, Dated June 5, 2003**

Dear Mr. Reuteman:

This letter addresses the findings and recommendations contained in the subject draft audit report on Brooklyn Baseball Company, L.L.C. (BBC). Generally, the audit disclosed significant weaknesses in BBC's internal controls that prevented the auditors from determining whether "actual attendance", "no-shows", and recreation area attendees were reported accurately, and whether all appropriate fees due the City were paid. Also, the auditors found that BBC did not report \$98,600 in revenue from the Surf Avenue retail space and owed the City \$49,300 in additional fees. Subsequent to the issuance of the preliminary draft report BBC paid the Parks Department (DPR) \$67,282.61 covering the period from May 1, 2001 through April 30, 2003. Furthermore, the audit report cited BBC for not depositing \$37,500 into a sinking fund, as required by its lease. BBC has remitted a check to DPR in the amount of \$50,000, covering payments of \$12,500 each due: October 31, 2001; March 1, 2002; October 31, 2002; and March 1, 2003. DPR acknowledges that it did take some time to establish the depository for BBC's payments and that BBC promptly forwarded its check upon receiving DPR's billing request. Finally, the report disclosed that BBC did not report Special Events fees income totaling \$101,473.

R.C. Fonteman
June 18, 2003
Page 4

The audit report recommends that BBC:

Recommendation 1. Base "actual attendance" on their turnstile counts, as required by the lease. In that regard, BBC should:

- Specifically label and identify each turnstile;
- Record the closing and opening count for each turnstile for each game;
- Ensure that each opening turnstile count matches the previous closing game counts;
- Secure and monitor all turnstiles to ensure that they are used only by game attendees and are not altered in any way to affect the recorded counts; and
- Reconcile counts with the physical ticket counts.

Recommendation 2. Reconcile the Daily Turnstile reports with the Season Summary and the Performance Sales reports.

The audit found that BBC calculated its base rent from ticket stub counts, rather than turnstile counts as required by its lease. The auditors concluded that BBC's method is not adequate to ensure that all ticket stubs are included in the count. The report states, "A complete count can be assured only by using the lease-mandated turnstile counts along with the ticket stubs." The audit team was unable to reconcile turnstile counts with the Daily Turnstile reports and ticket stub counts. At the audit exit conference BBC agreed to take corrective action to implement the above internal control and record keeping procedures.

By copy of this letter to Francisco Carlos, DPR's Internal Auditor, I am requesting that he schedule a follow-up review before the end of the "Cyclones" season, to ensure that BBC has complied with audit recommendations 1 and 2.

Recommendation 3. Remit all quarterly fees due from the Surf Avenue rental space with the required quarterly Statement of Retail Net Profit, in accordance with the lease agreement.

As indicated above BBC has remitted a check for \$67,282.61 covering the City's 50% share of Retail Net Profits for the Surf Avenue retail space through April 30, 2003. BBC's payment for the quarter ended July 31, 2003 is due by August 30, 2003.

As discussed at the exit conference, DPR recognizes that Section 20.2 of the Stadium Lease between the City and BBC needs to be corrected. David Farber, former Counsel for the Economic Development Corporation had discussed the matter with David Cohen, Vice President and General Counsel for the New York Mets, and also sent several E-Mails on this issue. Based on our discussions with David Farber and the contents of his written documentation on the subject, DPR's position is that BBC is required to remit quarterly fees for the Surf Avenue rental

R.C. Reuteman

June 18, 2003

Page 3

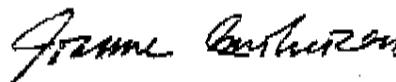
space. BBC correctly remitted payment to bring this revenue component up to date and should continue to do so in accordance with the due date schedule in Section 20.02. DPR will contact the City's Law Department to initiate the issuance of an amendment to correct the language in Section 20.02.

Recommendation 4. Ensure that income and expenses are appropriately reported on the Special Event statements submitted to Parks.

At the audit exit conference BBC agreed to implement procedures to properly comply with this recommendation. Mr. Carlos should verify this item in his follow-up review.

Finally, we wish to thank BBC for its cooperation during the audit review and anticipate your prompt action regarding the above recommendations.

Sincerely,



Joanne Imohiosen

cc: D. Stark
F. Carlos