

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 the New York Yankees With Their Lease Agreement January 1, 2003–December 31, 2006

FN08-090A

November 6, 2008



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 audited the compliance of the New York City Yankees Partnership (Yankees) with the terms of their lease agreement with the New York City Department of Parks and Recreation (Parks). Under the provisions of the agreement, the Yankees are required to pay the City fees based on reported revenue for the exclusive use of Yankees Stadium during the baseball season. The agreement allows the Yankees to deduct new-stadium-planning costs up to \$5 million each year.

The results of our audit, which are presented in this report, have been discussed with officials of the Yankees and the Parks Department, and their comments have been considered in preparing this report. Their complete written responses are included in this report.

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

Very truly yours,

William C. Thompson, Jr.

WCT/fh

Report: FN08-090A
Filed: November 6, 2008

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

**Audit Report on the
Compliance of the New York Yankees
With Their Lease Agreement
January 1, 2003—December 31, 2006**

FN08-090A

AUDIT REPORT IN BRIEF

In 1972, the New York Yankees, Inc., and the New York City Department of Parks and Recreation (Parks) entered into a 30-year lease agreement for the rental and exclusive use of Yankee Stadium during the baseball season. In March 1973, New York Yankees, Inc., assigned its interest to the New York Yankees Partnership (Yankees). The lease agreement, which is monitored by Parks, has been extended to December 31, 2008. The agreement allows the Yankees to sell tickets and provide food and souvenir concessions and restaurant and catering services for five restaurants, 19 luxury suites, and 15 “Hall of Fame” suites. The Yankees are permitted to offer parking for season-ticket holders, broadcast baseball games on cable television, and conduct post-season baseball games, if applicable. The agreement also allows the Yankees to operate or subcontract the concessions. The Yankees subcontract their concessions, which include the stadium’s restaurants, catering, and souvenir operations.

The agreement requires the Yankees to pay the City the greater of either an annual minimum rent of \$200,000 or a percentage of revenues from gross admission, concessions, and wait service. The Yankees are also required to pay the City fees from a portion of cable television receipts and prepaid parking. The agreement allows the Yankees to deduct payments to Major League Baseball and all sales taxes before calculating rent payments to the City. It also allows the Yankees to deduct from their rent payments new-stadium-planning costs incurred up to \$5 million each year for eight years (2001 to 2008) and 25 percent of property insurance premiums for Yankee Stadium.

The audit’s objectives were to determine whether the Yankees:

- accurately reported their gross receipts in accordance with the lease agreement,
- paid the appropriate fees due the City, and whether they paid these fees on time,
- submitted the appropriate allowable new-stadium-planning costs under the eight and tenth amendments of the lease, and
- complied with certain other requirements of their agreement (i.e., maintained the required insurance, and reimbursed the City for its utility use).

Audit Findings and Conclusions

Our audit found that the Yankees owe the City \$11,388,155 in additional rent resulting from the inappropriate deduction of \$9,035,636 in new-stadium-planning costs from their 2006 rent payment to the City and a total of \$2,352,519 consisting of the improper inclusion of \$860,595 in the new-stadium-planning costs submitted to the City in 2005, and the understatement of \$27,900,230 in gross revenue reported to the City from 2003 through 2006 that resulted in additional fees of \$1,491,924.

The Yankees submitted their Rent Statements and related payments to the City on time and generally adhered to the other non-revenue requirements of their lease agreement with the City, such as maintaining the required property and liability insurance that named the City as an additional insured party and reimbursing the City for their annual electricity, water, and sewer use. In addition, the Yankees paid the prior audit assessment of \$3,559,575.

Audit Recommendations

We make six recommendations, that the Yankees:

1. Pay the City the balance of \$6,388,155 representing the difference between the \$11,388,155 assessed by our audit and the \$5,000,000 in principal paid on March 10, 2008.
2. Ensure that revenue from gross admissions, cable television, concessions, and wait-service is accurately reported to the City and that all appropriate fees are paid.
3. Correctly allocate payments to Major League Baseball that relate to gross admission receipts and local cable television receipts in their calculation of rent due the City.
4. Submit only appropriate and allowable credits for new-stadium-planning costs that are deducted from rent due.

We recommend that Parks ensure that:

5. The Yankees pay the remaining \$6,388,155 in additional fees recommended in this report and comply with the audit's other recommendations.
6. The Yankees submit the proper documentation in support of any credit claim against rent payment to the City.

Discussion of Audit Results

We received written responses from the Yankees and Parks on October 16, 2008. In their response, the Yankees agreed with the report findings and agreed to pay Parks the \$11,388,155. At the conclusion of our audit fieldwork, the Yankees paid \$5,000,000 (plus an additional \$635,132 in interest) and agreed to pay the remaining \$4,035,636 on March 10, 2009. Subsequent to the written responses from the Yankees and Parks, we received a copy of a check for \$2,352,519 paid by the Yankees to Parks.

INTRODUCTION

Background

In 1972, the New York Yankees, Inc., and the New York City Department of Parks and Recreation (Parks) entered into a 30-year lease agreement for the rental and exclusive use of Yankee Stadium during the baseball season. In March 1973, New York Yankees, Inc., assigned its interest to the New York Yankees Partnership (Yankees). The lease has been extended to December 31, 2005, with five one-year renewal options to be exercised thereafter at the discretion of the Yankees. In 2007, the Yankees exercised the third of these renewal options extending the lease to December 31, 2008.

The lease agreement, which is monitored by Parks, permits the Yankees to sell tickets and provide food and souvenir concessions and restaurant and catering services for five restaurants, 19 luxury suites, and 15 “Hall of Fame” suites. The Yankees are permitted to offer parking for season-ticket holders, broadcast baseball games on cable television, and conduct post-season baseball games, if applicable. The agreement also allows the Yankees to operate or subcontract the concessions. The Yankees subcontract their concessions, which include the stadium’s restaurants, catering, and souvenir operations.

The agreement has been amended 10 times since its inception in 1972 through December 31, 2006, to grant the Yankees additional privileges. The first and second amendments, executed in 1972, allow the Yankees to exclude the following from reported revenues: sales tax, gratuities, and revenue from advertisements on scorecards, schedules, and other printed material. The third amendment, executed in 1975, permits the Yankees certain parking privileges within the public parking lots adjacent to the Stadium for a nominal charge. The fourth amendment, executed in 1993, allows the Yankees to “purchase” their own security services and maintenance services for Yankee Stadium, allowing these costs to be deducted from any rent due the City.¹

The fifth amendment, executed in 1996, allows the Yankees, when calculating payments to the City, to include the revenue received from the number of cable television subscribers within only a 50-mile radius of home-plate and to include only the ticket prices of the luxury suite rentals. The sixth amendment, executed in 1999, authorized the Yankees to replace 7,462 seats at a cost of \$1.1 million shared equally with the City. The seventh amendment, executed in 2000, required that the Yankees and the City comply with a court order pertaining to the Americans with Disabilities Act (ADA) with regard to making certain modifications to the stadium to accommodate the disabled.

On December 28, 2001, the City and the Yankees executed the eighth and ninth amendments retroactive to January 1, 2001. The eighth amendment allowed the Yankees to deduct new-stadium-planning costs equal to or less than \$5 million each year from their rent payments to the City for calendar years 2001 through 2005. The ninth amendment extended the

¹ City rent payment deductions related to Yankee Stadium security services and maintenance are audited separately by the Comptroller’s Office on a quarterly basis.

lease to December 31, 2005, and provided for five one-year renewal options exercised at the discretion of the Yankees.

The tenth amendment, dated June 2005, extended the term of the lease to December 31, 2006. In addition, the amendment allowed the Yankees to defer \$5 million in new-stadium-planning costs incurred during 2005 and treat it as a credit against the amount of rent due in 2006. The amendment also allowed the Yankees to take an additional \$5 million in new-stadium-planning cost credits in 2007 and 2008.

Based on the lease agreement, the Yankees are required to pay the City the greater of either an annual minimum rent of \$200,000 or a percentage of revenues from gross admission, concessions, and wait service. The Yankees are also required to pay the City fees from a portion of cable television receipts and prepaid parking. The agreement allows the Yankees to deduct revenue-sharing² payments made to Major League Baseball related to ticket sales as well as local cable television receipts and all sales taxes before calculating rent payments to the City. The agreement also allows the Yankees to deduct new-stadium-planning costs incurred up to \$5 million each year for eight years (2001 to 2008) and 25 percent of property insurance premiums for Yankee Stadium from their rent payments. The required rent payments and deductions from rent payments permitted under the lease agreement are shown on Table I, which follows:

² Amounts paid to Major League Baseball are known as “revenue sharing.” Revenue sharing was implemented by Major League Baseball to allow lower-revenue-generating baseball teams to be able to compete with the larger market teams that are able to generate more revenue due to the size of the market they play in.

Table I**Yankees Rent Payments and Credits under Lease Agreement**

Rent Payments:	
Gross Admission Receipts (Ticket Sales)	5% of ticket sales when annual paid attendance is 750,000 people or less, 7.5% for paid attendance of 750,001 to 1.5 million people, and 10% for more than 1.5 million people in paid attendance.
Post-Season Games Fees	\$2,000 for each post-season game, except for the fifth, sixth, and seventh games of the World Series, which is \$5,000 per game.
Gross Concession Receipts	5% of concession receipts when annual paid attendance is 750,000 people or less, 7.5% for paid attendance of 750,001 to 1.5 million people, and 10% for more than 1.5 million people in paid attendance.
Post-Season Concessions	7.5% of the total gross concession receipts from post season, all-star, and charity games.
Gross Wait-Service Receipts	5% of gross wait-service receipts.
Prepaid Parking Fees	50% of season ticket holders' parking fees.
Cable Television Receipts	10% of receipts for home games aired locally after allowable adjustments.
Credits/Deductions against Rent Payments:	
Payments to Major League Baseball	Payment deduction is calculated based on the percentage of gross admissions and local cable television receipts.
Sales Taxes	100% of sales taxes from ticket sales, concessions, and parking privileges.
Property Insurance	25% of insurance premiums paid.
New-Stadium-Planning Costs	\$5 million maximum annual credit for each calendar year from 2001 through 2008.
Maintenance Costs	100% of allowable costs for the maintenance of Yankee Stadium.(a)

(a) The Comptroller's Office conducts separate quarterly audits of the maintenance cost credits. Therefore, these rental credit amounts are not included in this audit.

In addition, the Yankees are required to carry comprehensive property and liability insurance that names the City as an additional insured party, reimburse the City for their consumption of electricity and for water and sewer use, and submit the preceding year's annual Statement of Rent to Parks on or before March 10, along with the applicable rent payment due.

For the audit period, January 1, 2003, to December 31, 2006, the Yankees reported gross revenues to the City totaling \$1.03 billion and made related rent payments of \$17.1 million.

Objectives

Our audit objectives were to determine whether the Yankees:

- accurately reported their gross receipts, and calculated and paid the appropriate fees due the City on time,
- submitted the appropriate and allowable new-stadium-planning costs under the eighth and tenth amendments of the lease, and
- complied with certain other non-revenue requirements of their agreement (i.e., maintained the required insurance and reimbursed the City for utility use).

Scope and Methodology

This audit covered the period January 1, 2003, to December 31, 2006. To achieve our audit objectives, we reviewed and abstracted the relevant terms and conditions of the lease agreement and amendments. We reviewed records on file at Parks, including the Parks Accounts Receivable Ledger and Statements of Rent, and the correspondence between the Yankees and Parks to ascertain whether the Yankees submitted the required Statement of Rent and paid all fees on time. We also conducted an analytical review and trend analysis of the revenue amounts reported to identify large fluctuations or inconsistencies.

We evaluated the internal controls over revenue collection and reporting functions by conducting walk-throughs of the Yankees operations pertaining to ticket sales, concession sales, restaurant revenue, and game-day catering operations in the stadium's restaurants and luxury suites. We documented our understanding of the procedures and controls through memoranda.

To determine whether the Yankees reported gross admission receipts (ticket sales) and paid attendance accurately, we examined the Yankees' Daily Game Recap reports for the 2003 through 2006 baseball seasons. For each game scheduled at Yankee Stadium, we recalculated daily ticket sales and paid attendance and traced our recalculated totals to those amounts reported on the Statements of Rent for 2003 through 2006. We traced the gross admission receipts reported in the Yankees' Daily Game Recap reports to the trial balance and the general ledger. We then compared the gross admission receipts to the amounts the Yankees reported to Major League Baseball for the same period. In addition, we compared the total gross admission receipts to the amount reported in the Statement of Division of Home Game Ticket Receipts, as audited by PricewaterhouseCoopers, LLP for consistency. Last, we determined whether the Yankees paid the required flat fees for post-season baseball games played at Yankee Stadium.

To determine whether all revenue generated from restaurant and catering services, and whether other concession sales were properly reported, we reviewed the Monthly Statements of Gross Receipts and the Percentage Commission Earned reports prepared by the concessionaire for the 2003 through 2006 baseball seasons, and compared the total amounts on those reports to the amounts reported on the Statements of Rent that the Yankees submitted to the City. We also assessed the reliability of the concession sales by comparing the amounts reported to the City with the audited reports on the Yankee Stadium concession operations prepared by Watson Rice, LLP.

To determine whether all cable television receipts amounts were accurately reported to the City, we reviewed the payment terms and amounts outlined in the contract between the Yankees and the Yankees Entertainment and Sports Network, LLC (YES)³ for the 2003 through 2006 baseball seasons. We reviewed the cable television receipts to the amounts posted on the Yankees general ledger and bank statements and traced the amounts to cable television receipts reported to the City. In addition, we determined the accuracy of the home game percentage reported to the City, by reviewing the YES Network broadcast schedules for all games played during the 2003 through 2006 baseball seasons that aired on the YES network.

In addition, we reviewed the Yankees books and records, including the general ledger and Schedule of Daily Prepaid Parking for the 2003 through 2006 baseball seasons, to determine whether the Yankees accurately reported the amounts for prepaid parking on the Statements of Rent.

To ascertain whether the deductions for revenue-sharing payments to Major League Baseball were properly reported to the City, we reviewed the payment amounts reported by the Yankees on the Major League Baseball revenue-sharing reports and traced the payment amounts to the disbursement ledgers and canceled checks. We then analyzed the Yankees' methodology for allocating the revenue-sharing deductions to the City, and recalculated the amounts for deduction based on the percentage of total revenue related to ticket sales and local cable television for accuracy.

To determine whether the deductions for new-stadium-planning costs incurred in calendar years 2003 through 2006 were in accordance with the eighth and tenth amendments of the lease agreement, we reviewed the total amounts of new-stadium-planning costs deducted from the rent payments to the City. We also reviewed all the supporting documentation for new-stadium-planning-costs (i.e., payment records, vendors' invoices, project contracts, and consultants) that the Yankees submitted to the City to determine whether the amounts were accurate and properly supported and whether the expenses the Yankees claimed as deductions were reasonable and necessary.

To determine whether the Yankees maintained the proper insurance coverage that named the City as an additional insured party, we examined their certificates of insurance. We obtained records of the insurance policies and payments they made to their insurance carriers in support of the insurance credit deductions taken by the Yankees in their rent statement to the City.

³ In 2001, the Yankees entered into an agreement with the Yankees Entertainment and Sports Network, LLC (YES) for the exclusive television broadcast right within the Yankees Television Territory.

Finally, we reviewed tax and utility payments and related records to determine whether the Yankees accurately calculated sales tax that they deducted from reported revenue, whether Parks was reimbursed for utility charges incurred by reviewing all canceled checks for electricity, water, and sewer use, and whether the Yankees satisfied the amount owed as reported in a prior audit conducted by the Comptroller's Office (Report FN04-125A, issued December 1, 2004).

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.

Discussion of Audit Results

The matters covered in this report were discussed with Yankees and Parks officials during and at the conclusion of this audit. A preliminary draft report was sent to Yankees and Parks officials and discussed at an exit conference held on August 14, 2008. On August 29, 2008, we submitted a draft report to Yankees and Parks officials with a request for comments. Subsequent to the submission of the draft report, Yankees officials provided additional documentation related to the issues discussed in the draft report. On October 1, 2008, after reviewing the additional documentation made available by the Yankees, we submitted a revised draft report to Yankees and Parks officials with request for comments.

We received written responses from the Yankees and Parks on October 16, 2008. In their response, the Yankees agreed with the audit report findings. They stated that a check for \$2,352,519 will be issued in the coming weeks, and that the balance owed in the amount of \$4,035,636 plus interest will be paid by March 10, 2009 as agreed to earlier.

In their response, Parks officials agreed with the audit report recommendations and stated that Parks will issue a letter to the Yankees requesting payment.

The full texts of the Yankees and Parks responses are included as addenda to this report.

Subsequent to the written responses from the Yankees and Parks, we received a copy of a check for \$2,352,519 paid by the Yankees to Parks.

FINDINGS

Our audit found that the Yankees owe the City \$11,388,155 in additional rent resulting from the inappropriate deduction of \$9,035,636 in new-stadium-planning costs from their 2006 rent payment to the City, and a total of \$2,352,519 consisting of improper inclusion of \$860,595 in the new-stadium-planning costs submitted to the City in 2005, and the understatement of \$27,900,230 in gross revenue reported to the City from 2003 through 2006 that resulted in additional fees of \$1,491,924, as detailed in Table II, below.

The Yankees submitted their Rent Statements and related payments to the City on time, and generally adhered to the other non-revenue requirements of their lease agreement with the City, such as maintaining the required property and liability insurance that named the City as an additional insured party and reimbursing the City for their annual electricity, water, and sewer use. In addition, the Yankees paid the prior audit assessment of \$3,559,575. These matters are discussed in greater detail in the following sections of this report.

Table II
Schedule of Additional Fees Owed the City
From 2003 through 2006

Revenue Categories	Revenue Reported Under/(Over)	Total Due the City
Disallowed New Stadium Planning Costs - 2006 (a)	\$ -	\$ 9,035,636
Disallowed New Stadium Planning Costs - 2005	-	860,595
<i>Total New Stadium Planning Costs Disallowed</i>		\$ 9,896,231
Overstated Revenue Sharing Deductions	\$ 24,620,679	\$ 1,651,529
Errors in Revenue Reporting:		
Waiter Service	16,033,649	801,682
Concessions Receipts	(15,581,824)	(1,309,850)
Gross Admissions Receipts	2,833,902	242,781
Prepaid Parking	(6,176)	(3,088)
Cable Television Home Game % Error	-	108,870
<i>Total Underreported Revenue</i>	\$ 27,900,230	\$ 1,491,924
Total	\$ 27,900,230	\$ 11,388,155

(a) At the conclusion of our audit fieldwork, in a letter dated February 27, 2008, the Yankees agreed to pay Parks the total of \$9,035,636 in new-stadium-planning costs that were inappropriately deducted from their 2006 rent payment to the City as identified in this audit. According to the letter, which memorializes the parties' understanding with respect to the rent payment amount due, both the Yankees and Parks agreed upon the terms and payment schedule by which the Yankees will pay the amount of \$9,035,636 in disallowed new-stadium-planning costs. As of March 10, 2008, the Yankees paid Parks a total of \$5,635,132 (\$5,000,000 in principal and \$635,132 in interest) for the first and second installments. The balance of \$4,035,636 plus interest at the rate of 4.5% per annum is scheduled for payment on March 10, 2009.

\$9,035,636 Inappropriately Claimed in 2006 New-Stadium-Planning Costs

The Yankees inappropriately deducted \$9,035,636 in new-stadium-planning costs from their 2006 rent payments to the City. In June 2005, the City and the Yankees executed a tenth amendment to the lease allowing the Yankees to take an additional \$5 million in rent credit for new-stadium-planning costs⁴ in calendar years 2006, 2007 and 2008. With regard to the \$5 million in rent credit allowed in 2006, the tenth amendment provided for the Yankees to defer \$5 million in rent credit for new-stadium-planning costs incurred in 2005 and apply it against rent in calendar year 2006. However, the Yankees chose to take the \$5 million credit allowed for 2006 in their 2005 rent payment to the City, in addition to the \$5 million rent credit allowed in 2005. Therefore, in their 2005 rent statement to the City, the Yankees reduced their payment to the City by \$10 million. Since the Yankees took the 2006 credit in 2005, they were not allowed any credit for the new-stadium-costs in 2006. However, in 2006, the Yankees improperly deducted \$9,035,636 in such planning costs in the rent statement submitted to the City. Consequently, the Yankees owe \$9,035,636 in additional rent to the City.

\$860,595 in 2005 New-Stadium-Planning Costs Disallowed

For calendar year 2005, the Yankees overstated the amount of new-stadium-planning costs reported to the City by \$860,595. As discussed in the previous finding, the Yankees took a \$10,000,000 credit for new-stadium-planning costs in their 2005 rent payment to the City. In connection with the \$10,000,000 deduction, the Yankees reported to the City a total of \$10,786,577 in new-stadium-planning costs. However, our review of the documentation submitted determined that of the \$10,786,577 in planning costs reported, a total of \$1,647,172 was not allowable.

For example, the Yankees submitted duplicate payments totaling \$1,021,157 as follows: the Yankees claimed a total of \$462,921 in credit for planning costs that they had already paid and submitted to the City for credit in their 2004 rent statements. In another instance, the Yankees paid contractors twice for a total of \$558,236 and submitted the documentation to the City for credit. As a result of these duplications, we disallowed \$1,021,157 in new-stadium-planning costs.

In another example, we disallowed \$626,015 in planning-cost credits submitted by the Yankees, as follows: The Yankees submitted \$359,617 in planning-costs related to bonuses paid by the project developer to its employees. Although in the agreement, between the Yankees and the project developer, the Yankees allowed the project developer to include bonuses as part of the project costs, bonus payments are not identified as allowable planning cost expenses in the City's agreement. Additionally, the Yankees submitted \$182,070 in miscellaneous consulting fees charged by its contractors without adequate documentation that indicated the purpose of the work, the scope of work performed, payroll information or expense receipts to justify the costs, as required in the lease agreement. Given the various errors and duplications we found in our

⁴ The eighth amendment executed in December 2001 allowed the Yankees to deduct new-stadium-planning costs equal to or less than \$5 million each year from their rent payments submitted to the City for calendar years 2001 through 2005.

review of the new-stadium-planning costs that the Yankees submitted to the City, without adequate supporting details, we could not allow for the inclusion of these costs because of the impreciseness of this information. In addition, the Yankees inappropriately submitted expenses of \$50,000 in consulting fees related to a Political Action Committee, and a total of \$34,328 in meal and travel expenses, including \$6,231 for Yankees personnel for visits to various new stadiums in the country. Based on the review of the supporting documentation provided by the Yankees, we determined that these expenses were not appropriate according to the City agreement.

Consequently, after reviewing the documentation in support of the amounts the Yankees submitted to the City, we determined that the total allowable credit for new-stadium-planning costs should have been \$9,139,405 (\$10,786,577 – \$1,647,172). Since the Yankees were allowed a deduction of \$10,000,000 for planning costs incurred in 2005, they now owe the difference of \$860,595 (\$10,000,000 – \$9,139,405) in additional rent due the City.

Major League Baseball Deductions Overstated by \$24,620,679

In accordance with a 1997 agreement between Major League Baseball and the baseball teams, the Yankees participate in a revenue-sharing program. Article VIII, §3.4(i)(2), and Article XVII, §17.2 (a), of the City lease agreement allow the Yankees to deduct payments to Major League Baseball that are related to gross admission receipts and local cable television receipts from their calculation of rent due the City.

For the period 2003 through 2006, the Yankees overstated their Major League Baseball payment deductions by \$24,620,679 in their rent statements submitted to the City. Our review found that in calculating the portion of the revenue-sharing payment deductions reported to the City, the Yankees included stadium operating expenses in their methodology. The City lease agreement requires that deduction for revenue-sharing payments to Major League be calculated based on the percentage of gross admissions and local cable television receipts. However, the Yankees did not calculate the percentage based on gross receipts. Instead, they deducted stadium operating expenses from total gross revenue before determining the percentage of payment deduction. This resulted in an increase in the portion of revenue-sharing payments attributable to gross admission and cable receipts deductions the Yankees reported to the City. Specifically, on the statements of rent submitted to the City, the Yankees deducted a total of \$206,692,953 in revenue-sharing payments. However, based on our calculation, the amount for revenue-sharing deductions should have been only \$182,072,274. Therefore, the Yankees understated their gross revenue reported to the City by \$24,620,679 (\$206,692,953 – \$182,072,274) and owe the City \$1,651,529 in additional rent, as shown in Table III, following.

Table III

Overstated Revenue-Sharing Deductions and
Additional Fees Owed from 2003-2006

	2003	2004	2005	2006	Total
Yankees Reported Revenue-Sharing					
Payments to Major League Baseball Reported to the City	\$51,729,255	\$63,073,466	\$75,402,324	\$80,328,908	\$270,533,953
Percentage of Gross Admission and Cable TV Receipts	100%	70.70753%	71.09175%	70.66096%	
Amounts Deducted from Rent Statement Submitted to the City (a)	\$51,729,255	\$44,597,688	\$53,604,832	\$56,761,178	\$206,692,953
Auditors Calculation of Revenue-Sharing					
Payments to Major League Baseball As Audited *	\$64,530,121	\$65,729,849	\$75,972,727	\$80,328,908	\$286,561,605
Applicable Percentage of Gross Admission and Cable TV Receipts	58.67004%	62.65841%	65.16271%	66.62765%	
Adjusted Deductions for Revenue-Sharing Amounts (b)	\$37,859,845	\$41,185,279	\$49,505,887	\$53,521,263	\$182,072,274
Overstated Revenue-Sharing Deductions (a) – (b)	\$13,869,410	\$ 3,412,409	\$ 4,098,945	\$ 3,239,915	\$ 24,620,679
Additional Fees Due **	\$ 927,035	\$ 222,119	\$ 289,239	\$ 213,136	\$ 1,651,529

*In addition to the percentage difference, the audited amount includes revenue adjustments for timing differences i.e., revenue-sharing payments made by the Yankees but not reported to the City.

** The calculation of additional fees due the City from revenue-sharing deductions is presented in the Appendix.

Errors in Revenue Reporting

Our review of the Yankee books and records disclosed the following errors in reporting of revenue to the City:

Errors in the Calculation of Wait-Service and Concession Revenue

From 2003 through 2006, the Yankees reported \$243,287,474 in concession revenue in their rent statements to the City. However, according to the books and records of the concessionaire, concession revenue for that four-year period amounted to \$227,705,650. The difference of \$15,581,824 was the result of the Yankees' erroneous inclusion of wait-service revenue from four of their five restaurants in the calculation of fees due from concessions. According to the City agreement, wait-service revenue should be reported separately and calculated based on a different percentage rate. Therefore, this error resulted in an overpayment to the City in the amount of \$1,309,850. Additionally, from 2003 through 2006, the Yankees did not report wait-service revenue generated by all five restaurants totaling \$16,033,649, resulting in additional fees due of \$801,682. Consequently, we revised the amounts to reflect an adjustment for the wait-service revenue difference of \$15,581,824 and \$16,033,649 respectively, and a credit to the Yankees in the amount of \$508,168 (\$1,309,850-801,682).

Underreporting of Gross Admission Receipts

Gross admissions receipts were underreported by \$2,833,902, resulting in additional fees of \$242,781. In 2003, the Yankees reported to the City \$111,040,482 in gross admissions receipts. However, according to the Yankee books and records, gross admissions receipts amounted to \$111,845,790, an understatement of \$805,308. Similarly, in their 2005 rent statement submitted to the City, the Yankees reported gross admissions receipts of \$145,521,055. However, according to their books and records, gross admissions receipts amounted to \$147,549,649, an understatement of \$2,028,594. As a result of these errors, the Yankees underreported a total of \$2,833,902 and owe the City an additional \$242,781.

Overreporting of Prepaid Parking Revenue

According to the Yankee books and records, prepaid parking revenue for the 2003 through 2006 baseball seasons amounted to \$6,093,239. However, the Yankees reported \$6,099,415 in parking revenue for the audit period—an overstatement of \$6,176. As a result, the Yankees are due a credit of \$3,088 (based on the 50 percent payment provision in the lease agreement).

Underreporting of Cable Television Home Game Percentage

Our review of the YES network broadcast schedules for all games played during the 2003 through 2006 baseball seasons found that the Yankees underreported the number of games played in Yankee Stadium that aired on the YES network, which is the basis for calculating the percentage of revenue from local cable television the Yankees reported to the City. As a result of this error, the Yankees underpaid the City and consequently owe an additional \$108,870 in rent.

RECOMMENDATIONS

We recommend that the Yankees:

1. Pay the City the balance of \$6,388,155, representing the difference between the \$11,388,155 assessed by our audit and the \$5,000,000 in principal paid on March 10, 2008.
2. Ensure that revenue from gross admissions, cable television, concessions, and wait-service is accurately reported to the City and that all appropriate fees are paid.
3. Correctly allocate payments to Major League Baseball that relate to gross admission receipts and local cable television receipts in their calculation of rent due the City.
4. Submit only appropriate and allowable credits for new-stadium-planning costs that are deducted from rent due.

Yankees Response: “In response to the referenced Audit report The New York Yankees accept the finding in the report. A check for \$2,352,519.00 will be issued in the coming weeks. The balance in the amount of \$4,035,636.00 plus interest will be paid by March 10, 2009 as agreed to earlier.”

Auditor Comment: Subsequent to the written responses from the Yankees and Parks, we received a copy of a check for \$2,352,519.00 paid by the Yankees to Parks.

We recommend that Parks:

5. Ensure that the Yankees pay the remaining \$6,388,155 in additional fees recommended in this report and comply with the audit’s other recommendations.

Parks Response “DPR [Parks] will issue a letter to the Yankees requesting partial payment under Recommendation 1, which stated that the Yankees should pay the City \$6,388,155. As you are aware, there is a payment schedule already in place for \$4,035,636 (of the \$6,388,155) that requires payment to be made no later than March 10, 2009. As a result, we have requested a partial amount of \$2,352,519 (\$6,388,155 - \$4,035,636) covering the findings for which there is no payment schedule already in place.

“To be clear with regard to the Comptroller’s findings, our records and correspondence with the Yankees confirm that Parks identified the \$9,035,636 (of the \$11,388,155) well before the commencement of the audit.”

Auditor Comment: We commend Parks’ action in requesting payment from the Yankees for improper rent deductions. However, Parks officials are mistaken when crediting themselves for identifying \$9,035,636 (of the \$11,388,155) reported by this

audit. We brought the improper rent deduction of \$9,035,636 taken in 2006 by the Yankees to the attention of Parks in November 2007 during the preliminary stage of this audit. It was only after our discussion with Parks that it billed the Yankees for the disallowed credit in December 2007. Had Parks monitored and reviewed the documentation for the planning costs submitted by the Yankees for 2006, this issue would not have remained unidentified for a year. Moreover, as previously stated in this report, Parks failed to adequately review invoices submitted by the Yankees for rental credits and as a consequence failed to identify and disallow duplicate invoices totaling \$1,021,157. These instances were an invoice of \$462,921 submitted by the Yankees in 2004 and again in 2005, and an invoice for \$558,236 that represented a duplicate payment to the same contractor.

Subsequent to the written responses from the Yankees and Parks, we received a copy of a check for \$2,352,519.00 paid by the Yankees to Parks.

6. Ensure that the Yankees submit the proper documentation in support of any credit claim against rent payment to the City.

Parks Response: Parks responded that “Parks’ letter also requires that the Yankees ensure implementation of Recommendations 2 through 4.”

With respect to Recommendations 5 and 6, Parks stated, “These items will be addressed by Parks’ issuance of the above referenced notice.”

The New York Yankees
Additional Rent Due from Revenue-Sharing Overdeductions
January 1, 2003, through December 31, 2006

2003						
Revenue Stream	Underreported ** Revenue Amount	Attendance (b)	% of Total Attendance (b) / (c) = (d)	Allocated Revenue (a) x (d) = (e)	% Rent Stipulated By the Lease (f)	Additional Rent Due the City (e) x (f)
Gross Admissions	\$ 8,895,901 (a)	750,000	21.05%	\$ 1,872,710	5%	\$ 93,636
		750,000	21.05%	1,872,710	7.5%	140,453
		2,062,711	57.90%	5,150,480	10%	515,048
		3,562,711 (c)	100.00%	\$ 8,895,901		\$ 749,137
	Underreported Revenue Amount	Subscriber Percentage	% of Total Locally Aired Home Games	Allocated Revenue (A) x (B) x (C) = (D)	% Rent Stipulated By the Lease (E)	Additional Rent Due the City (D) x (E)
Cable Television Receipts	4,973,509 (A)	75.00% (B)	47.69% (C)	\$ 1,778,986	10%	\$ 177,899
Total	\$ 13,869,410				Total	\$ 927,035

2004						
Revenue Stream	Underreported Revenue Amount	Attendance (b)	% of Total Attendance (b) / (c) = (d)	Allocated Revenue (a) x (d) = (e)	% Rent Stipulated By the Lease (f)	Additional Rent Due the City (e) x (f)
Gross Admissions	\$ 1,986,855 (a)	750,000	19.87%	\$ 394,715	5%	\$ 19,736
		750,000	19.87%	394,715	7.5%	29,604
		2,275,231	60.27%	1,197,424	10%	119,742
		3,775,231 (c)	100.00%	\$ 1,986,855		\$ 169,082
	Underreported Revenue Amount	Subscriber Percentage	% of Total Locally Aired Home Games	Allocated Revenue (A) x (B) x (C) = (D)	% Rent Stipulated By the Lease (E)	Additional Rent Due the City (D) x (E)
Cable Television Receipts	1,425,554 (A)	75.00% (B)	49.61% (C)	\$ 530,373	10%	\$ 53,037
Total	\$ 3,412,409				Total	\$ 222,119

2005						
Revenue Stream	Underreported Revenue Amount	Attendance (b)	% of Total Attendance (b) / (c) = (d)	Allocated Revenue (a) x (d) = (e)	% Rent Stipulated By the Lease (f)	Additional Rent Due the City (e) x (f)
Gross Admissions	\$ 2,804,396 (a)	750,000	18.33%	\$ 514,167	5%	\$ 25,708
		750,000	18.33%	514,167	7.5%	38,562
		2,590,692	63.33%	1,776,063	10%	177,606
		4,090,692 (c)	100.00%	\$ 2,804,396		\$ 241,877
	Underreported Revenue Amount	Subscriber Percentage	% of Total Locally Aired Home Games	Allocated Revenue (A) x (B) x (C) = (D)	% Rent Stipulated By the Lease (E)	Additional Rent Due the City (D) x (E)
Cable Television Receipts	1,294,549 (A)	75.00% (B)	48.78% (C)	\$ 473,615	10%	\$ 47,362
Total	\$ 4,098,945				Total	\$ 289,239

2006						
Revenue Stream	Underreported Revenue Amount	Attendance (b)	% of Total Attendance (b) / (c) = (d)	Allocated Revenue (a) x (d) = (e)	% Rent Stipulated By the Lease (f)	Additional Rent Due the City (e) x (f)
Gross Admissions	\$ 1,915,972 (a)	750,000	17.66%	\$ 338,307	5%	\$ 16,915
		750,000	17.66%	338,307	7.5%	25,373
		2,747,561	64.69%	1,239,358	10%	123,936
		4,247,561 (c)	100.00%	\$ 1,915,972		\$ 166,224
	Underreported Revenue Amount	Subscriber Percentage	% of Total Locally Aired Home Games	Allocated Revenue (A) x (B) x (C) = (D)	% Rent Stipulated By the Lease (E)	Additional Rent Due the City (D) x (E)
Cable Television Receipts	1,323,943 (A)	75.00% (B)	47.24% (C)	\$ 469,114	10%	\$ 46,911
Total	\$ 3,239,915				Total	\$ 213,136

Total Underreported Revenue	\$ 24,620,679	Total Additional Fees Due the City				\$ 1,651,529
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** The calculation of Underreported Revenue Amount is displayed in Table III

New York Yankees

ROBERT B. BROWN
VICE PRESIDENT, CFO/ACCOUNTING



EXECUTIVE OFFICE
YANKEE STADIUM
BRONX, NEW YORK 10451
OFFICE: (718) 579-4528
FAX: (718) 681-5942
EMAIL: rbrown@yankees.com

October 14, 2008

Mr. John Graham
Deputy Comptroller
The City of New York
Office Of The Comptroller
Executive Offices
1 Centre Street
New York, NY 10007-2341

Re: Audit Report
January 1, 2003 – December 31, 2006
FN08-090A

Mr. Graham:

In response to the referenced Audit report The New York Yankees accept the finding in the report. A check for \$2,352,519.00 will be issued in the coming weeks. The balance in the amount of \$4,035,636.00 plus interest will be paid by March 10, 2009 as agreed to earlier.

Yours truly,

Robert B. Brown

CC: Lonn Trost (NYY)
Randy Levine (NYY)



City of New York
Parks & Recreation

Adrian Benepe
Commissioner

The Arsenal
Central Park
New York, New York 10065

Elizabeth W. Smith
Assistant Commissioner
Revenue and Marketing

(212) 360-1366
betsy.smith@parks.nyc.gov

October 16, 2008

Mr. John Graham
Deputy Comptroller
The City of New York
Office of the Comptroller
Executive Offices
1 Centre Street
New York, NY 10007

**Re: Comptroller's Draft Audit Report on the New York Yankees Rent Statements
January 1, 2003 through December 31, 2006 FN 08-090A**

Dear Mr. Graham:

This letter represents the Parks Department's ("Parks"), response to the recommendations contained in the subject audit of the New York Yankees Partnership ("Yankees").

DPR will issue a letter to the Yankees requesting partial payment under **Recommendation 1**, which stated that the Yankees should pay the City \$6,388,155. As you are aware, there is a payment schedule already in place for \$4,035,636 (of the \$6,388,155) that requires payment to be made no later than March 10, 2009. As a result, we have requested a partial amount of \$2,352,519 (\$6,388,155 - \$4,035,636) covering the findings for which there is no payment schedule already in place.

To be clear with regard to the Comptroller's findings, our records and correspondence with the Yankees confirm that Parks identified the \$9,035,636 (of the \$11,388,155) well before the commencement of the audit.

Parks' letter also requires that the Yankees ensure implementation of **Recommendations 2 through 4**. With respect to Recommendation 4, we will require the Yankees to comply with the terms of the tenth amendment to their lease with the City. **Recommendation 5** states that Parks should ensure that the Yankees pay the additional fees recommended in the report. **Recommendation 6** states that Parks should ensure the Yankees submit the proper documentation in support of any credit claim against rent payment to the City. These items will be addressed by Parks' issuance of the above referenced notice.



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

Sincerely,

A handwritten signature in black ink, appearing to read 'Elizabeth W. Smith', with a long horizontal flourish extending to the right.

Elizabeth W. Smith

cc: Comm. Adrian Benepe
A. Olivieri
David Stark
Robert Bernstein, Mayor's Office of Operations