

AUDIT REPORT

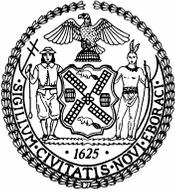


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Compliance of Staten Island Minor League Holdings, L.L.C. (Staten Island Yankees) With Their Lease Agreement January 1, 2005–October 31, 2006

FN07- 088A

June 18, 2007



THE CITY OF NEW YORK
DEPARTMENT 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 Staten Island Minor League Holdings, L.L.C., (Staten Island Yankees) with the terms of their lease agreement with the New York City Economic Development Corporation (EDC).

Under the 20-year lease agreement, the Staten Island Yankees have the exclusive right for the use and operation of the Richmond County Bank Ballpark in Staten Island. We audit private parties that are lessees of the City to ensure that they comply with the terms of their agreements, properly report revenue, and pay all fees due the City.

The results of our audit, which are presented in this report, have been discussed with officials of the Staten Island Yankees and EDC, and their comments have been considered in preparing this report. Their complete written response is 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,

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

William C. Thompson, Jr.

WCT/fh

Report: FN07-088A
Filed: June 18, 2007

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

**Audit Report on the Compliance of
Staten Island Minor League Holdings, L.L.C.
(Staten Island Yankees)
With Their Lease Agreement
January 1, 2005–October 31, 2006**

FN07-088A

AUDIT REPORT IN BRIEF

On December 7, 2000, the Staten Island Minor League Holdings, LLC (doing business as the Staten Island Yankees) and the New York City Economic Development Corporation (EDC) entered a 20-year lease. The lease, which is monitored by EDC, grants the Staten Island Yankees (SI Yankees) the exclusive right for the use and operation of the Richmond County Bank Ballpark in Staten Island, and requires that the SI Yankees pay EDC an annual base rent for actual game attendance, rent for the team store, and certain percentages of revenues generated from special event net income and from advertising revenues. In addition the lease requires the SI Yankees to: deposit \$26,943 annually in a sinking fund that permits EDC to undertake capital projects at the stadium; pay for stadium electricity; pay for the stadium's water and sewer use; maintain a \$50,000 security deposit with EDC; and carry comprehensive property and liability insurance that names the City and EDC as additional insured parties. Finally, the lease requires that the SI Yankees submit to EDC each lease year an attendance report, a statement of special event net income, and a statement of signage revenue.

This audit determined whether the SI Yankees paid EDC the rent due in accordance with lease provisions and whether the payments were made on time. The audit also determined whether the SI Yankees submitted required reports, maintained required insurance, reimbursed EDC for electricity use, paid for water and sewer use, provided the proper security deposit, made the required capital sinking fund contributions, and implemented the recommendations made in our prior audit, *Audit Report on the Compliance of Staten Island Minor League Holdings, L.L.C. (Staten Island Yankees), with Their Lease*—#FN05-106A, dated April 21, 2006.

Audit Findings and Conclusions

The SI Yankees adhered to certain non-revenue-related requirements of the agreement including: maintaining property and liability insurance endorsing the City and EDC as additional insured parties; depositing a required \$50,000 security deposit with EDC; and paying water and

sewer charges. Our review also noted that the SI Yankees did not owe rent for game attendance, team store, or special events for the audit period January 1, 2005, to October 31, 2006. In addition, the SI Yankees improved their internal control over reported attendance, addressing the weakness cited in the prior report.

However, our review found that from January 1, 2005, through October 31, 2006, the SI Yankees failed to pay EDC a total of \$1,581,154 for reimbursement of electricity use, signage revenue, sinking fund capital contributions, and previous audit assessments. Nevertheless, on January 4, 2007, at the conclusion of our fieldwork, the SI Yankees signed a lease amendment and agreed to pay the amount of \$1,427,899 in full settlement of all outstanding balances owed. This monetary settlement was precipitated by the impending sale of the SI Yankees through a total acquisition of interest by their minority shareholder. On April 9, 2007, EDC confirmed that the total amount of \$1,427,899 has been received from the SI Yankees.

Audit Recommendations

We make the following two recommendations:

We recommend that the SI Yankees:

- ensure that it remits to EDC in a timely fashion all required electricity payments, signage revenue, and sinking fund contributions.

We also recommend that EDC:

- ensure that the SI Yankees pay all lease fees on time.

INTRODUCTION

Background

On December 7, 2000, the New York City Economic Development Corporation (EDC) signed a 20-year lease with Staten Island Minor League Holdings, LLC (doing business as the Staten Island Yankees) for the use and operation of the Richmond County Bank Ballpark in Staten Island. The lease commenced on May 1, 2001, and is monitored by EDC. The lease grants the Staten Island Yankees (SI Yankees) the exclusive right to use the ballpark, sell game tickets, operate a team store, sell advertising, provide food and souvenir concessions, and lease the stadium for special events (i.e., art, concerts, culture, community, charity, civic, and amateur sporting events).

The lease requires that the SI Yankees pay EDC annually, subject to certain attendance criteria; a base rent for actual game attendance and a ticket fee for each complimentary ticket issued and for each paid “no-show.” In addition, the lease requires that the SI Yankees pay a monthly rent for the team store and certain percentages of revenues generated from special event net income and advertising revenues. The lease also requires the SI Yankees to: deposit \$26,943 annually in a sinking fund that permits EDC to undertake capital projects at the stadium; pay for stadium electricity; pay for the stadium’s water and sewer use; maintain a \$50,000 security deposit with EDC; and carry comprehensive property and liability insurance that names the City and EDC as additional insured parties. Finally, the lease requires that the SI Yankees submit to EDC each lease year an attendance report, a statement of special event net income, and a statement of signage revenue. The following Table I summarizes the payment provisions of the lease:

Table I
Base Rent, Percentages of Revenues and Net Profit, and
Other Payment Requirements Required by the Lease

Rent Payments:

Base Rent for Game Attendance	Ranging from \$0 to \$510,000, based on the actual paid attendance.(a)
No Shows and Complimentary Tickets	\$0.50 for each complimentary ticket issued and for each paid no-show.(b)
Team Store	No rent for the team store is due during the baseball season. Rent is payable only during the off season and only if the team store is open five or more calendar days. Monthly rent due is calculated at \$5.00 per square foot of the team store's gross area multiplied by one-twelfth.
Special Event Net Income	30% of special events net income in excess of \$143,000.
Stadium Advertising Revenue	50% of revenue received from advertising capped at \$272,508.
Capital Contribution	\$26,943 annually, paid into a sinking fund, due March 1 and October 31.(c)
Electricity	100% of actual costs incurred for the stadium, as billed by EDC.

(a) Section 3.01(a) (ii) of the lease defines "actual attendance" for a particular lease year as the total number of ticket-holders who actually attended team home games, less complimentary ticket holders who attended team home games. Base rent of \$100,000 is payable when actual attendance exceeds 125,000 persons. Base rent increases in steps to a maximum of \$510,000 if actual attendance reaches more than 245,000 persons.

(b) Section 3.01(b) of the lease defines "no-shows" and complimentary ticket holder rent payments as applicable only in years in which actual attendance exceeds 125,000 persons.

(c) According to the lease, during each lease year of the term, tenant shall pay the amount of \$25,000 into a sinking fund. This amount shall be subject to a Consumer Price Index (CPI) adjustment at the commencement of the fourth year. For year 2004, the CPI factor raised this amount to \$26,943.

Objectives

The objectives of this audit were to determine whether the SI Yankees:

- paid EDC the rent due in accordance with lease provisions and whether the payments were made on time;
- submitted required reports, maintained required insurance, reimbursed EDC for electricity use, paid for water and sewer use, provided the proper security deposit, and made the required capital sinking fund contributions; and
- implemented the recommendations made in our prior audit, *Audit Report on the Compliance of Staten Island Minor League Holdings, L.L.C. (Staten Island Yankees), with Their Lease*—#FN05-106A, dated April 21, 2006.

Scope and Methodology

This audit covered the period January 1, 2005, through October 31, 2006. (Prior audit #FN05-106A covered the period January 1, 2003, through December 31, 2004.) To achieve our audit objectives, we reviewed and abstracted the relevant terms and conditions of the lease and its amendments. To determine whether the SI Yankees remitted the required statements and paid all fees due EDC on time, we reviewed EDC file records including EDC's tenant history ledger, SI Yankee rent statements, check payments, insurance certificates, and correspondence between the SI Yankees and EDC.

We evaluated the internal controls over the SI Yankee ticket and revenue collection and reporting processes. To understand the organization's operating procedures, we interviewed SI Yankee officials, conducted a walk-through of the operations and familiarized ourselves with the SI Yankees' accounting and record-keeping functions. We documented our understanding of the internal controls through written narratives.

To determine whether the SI Yankees reported turnstile attendance accurately, we reviewed the daily attendance reported on the season ticket summary report for home games played. We compared the total tickets sold and the actual attendance data reported for the stadium seating areas to the total amount reported to EDC for accuracy and consistency. Additionally, we evaluated the reliability of the attendance data reported by the turnstile ticket count system. We compared the opening and closing counts for each turnstile that were recorded on the turnstile count spreadsheets to the totals recorded on the detail attendance reports for each game of the 2005 and 2006 baseball seasons. We then traced the total attendance from the turnstile count reports, the computerized hand scanner counts, and the ticket taker manual counts to the data reported to EDC for accuracy.

To determine whether donated tickets were properly classified and reported, we reviewed all 97 ticket donations forms for the 2005 and 2006 seasons. We determined whether the forms were completed correctly, and processed and authorized by appropriate personnel. We also determined whether all forms included a valid charity organization's request letter

To determine whether the SI Yankees paid their advertising fees to EDC and paid them on time, we traced the revenue amounts from the advertising contracts to the SI Yankees' revenue report. We then reviewed EDC's records to determine whether payments were made accordingly.

To determine whether the SI Yankees accurately reported special events net income to EDC and paid the appropriate fees, if any, for the 2005 and 2006 lease years, we compared the reported amounts for special events to the supporting documents that included special event calendars and cash receipts and cash disbursements ledger accounts. We then traced those amounts to the SI Yankees' special events calendars, special events agreements, computerized ticketing system event detail reports, vendor invoices, and check payments.

To confirm whether the SI Yankees maintained the proper insurance coverage that named the City and EDC as an additional insured, we examined the SI Yankees' certificates-of-insurance, insurance policies, and premium payment covering April 2006 to March 2007. To determine whether the organization paid its water and sewer charges and reimbursed EDC for electricity at the stadium, we reviewed billing statements and copies of canceled checks to EDC. To determine whether the SI Yankees deposited the proper amount as security and made the proper capital sinking fund contributions, we obtained copies of the canceled checks and traced the amounts on the checks to EDC's books and records.

Finally, we determined whether the SI Yankees implemented the recommendations made in our prior audit (*Audit Report on the Compliance of Staten Island Minor League Holdings, L.L.C. (Staten Island Yankees), with Their Lease—#FN05-106A*, dated April 21, 2006). Specifically, we reviewed:

- canceled checks and accounts payable ledger to determine whether the SI Yankees paid the outstanding fees and late charges owed to EDC;
- check dates to determine whether current period payments were made on the dates specified in the agreement; and
- supporting documentation, (i.e., ticket summary reports, turnstile count spreadsheets, ticket stubs, etc.) to determine whether the SI Yankees strengthened internal controls over ticket sales that would allow them to accurately calculate and report actual attendance based on turnstile counts, in accordance with their lease.

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 the Comptroller's audit authority under §32.02 of the SI Yankees' lease.

Discussion of Audit Results

The matters covered in this report were discussed with SI Yankees and EDC officials during and at the conclusion of this audit. A preliminary draft report was sent to SI Yankees and EDC officials on April 3, 2007. We received written notices from the SI Yankees and EDC officials waiving their right to an exit conference. On April 25, 2007, we submitted a draft report to the SI Yankees and EDC officials with a request for comments. We received a written response from EDC on April 12, 2007. On May 9, 2007, the SI Yankees sent an e-mail stating “no comments” on the report recommendation.

In their response, EDC officials stated that EDC will continue to monitor the account closely and take appropriate action to ensure full and timely payments of all fees by the Staten Island Yankees.

The full text of the response from EDC officials is included as addendum to this report.

FINDINGS

The SI Yankees maintained the required property and liability insurance endorsing the City and EDC as additional insured parties; maintained the required \$50,000 security deposit with EDC; and paid their water and sewer charges. Our review also noted that the SI Yankees did not owe rent for game attendance, team store, and special events for the audit period January 1, 2005, to October 31, 2006. In addition, the SI Yankees improved their internal control over reported attendance, addressing the weakness cited in the prior report.

However, our review found that from January 1, 2005, through October 31, 2006, the SI Yankees failed to pay EDC a total of \$1,581,154 for reimbursement of electricity use, signage revenue, sinking fund capital contributions, and previous audit assessments. Nevertheless, on January 4, 2007, at the conclusion of our fieldwork, the SI Yankees signed a lease amendment and agreed to pay the amount of \$1,427,899 in full settlement of all outstanding balances owed. This monetary settlement was precipitated by the impending sale of the SI Yankees through a total acquisition of interest by their minority shareholder.

These matters are discussed in detail in the following sections of this report.

The SI Yankees Failed to Pay the City and EDC \$1,581,154

For calendar years 2005 and 2006, the SI Yankees did not pay EDC \$1,035,839 for the following:

- \$450,409 for reimbursement of electricity payments. Lease agreement §9.01 (a) (iii) states: “Landlord shall provide electricity to the Premises at all times, and Tenant shall reimburse Landlord for the cost of such electricity.”
- \$545,016 for advertising signage revenue. Lease agreement §7.04(b) states: “Tenant shall pay to Landlord an amount equal to fifty percent (50%) of the Net Signage Revenues received . . . each Lease Year.”
- \$40,414 for additional sinking fund contributions. Lease agreement §10.05 (a) (i) states: “Tenant shall pay the amount of Twenty-Five Thousand Dollars . . . into a sinking fund. Such amount shall be subject to a CPI Adjustment at the commencement of the fourth (4th) Lease Year.”

Additionally, a total of \$545,315 in assessments identified in prior audit #FN05-106A was still outstanding.

Despite the SI Yankees’ failure to pay the required amounts due from January 1, 2005, through October, 31, 2006, the January 4, 2007 lease amendment and related monetary settlement of \$1,427,899 cleared all outstanding balance due through October 2006. (A sum of \$827,899 was paid upon execution of the amendment; and the \$600,000 balance is to be remitted within 90 days.)

Nevertheless, since the lease will be in effect for an additional 13 years, EDC must ensure that the SI Yankees pay all required payments as discussed above in the future. On April 9, 2007, EDC confirmed that it received the balance of \$600,000 from the SI Yankees.

Prior Audit Issues

Assessments

The prior audit conducted by our office assessed the SI Yankees a total of \$570,202. Of this amount, \$377,052 was for outstanding electricity use charges; \$24,887 was for outstanding water and sewer charges through December 31, 2004; \$168,263 was for late charges consisting of \$135,188 in late charges due on sinking fund installments, advertising and signage fees, and the non-payment of base rent, plus \$33,075 in late charges due assessed in the audit FN03-116A issued in June 27, 2003.

Our review noted that the SI Yankees satisfied the prior assessment of \$24,887 in outstanding water and sewer charges leaving an outstanding balance of \$545,315 from the prior audit assessments. On January 4, 2007, EDC and the SI Yankees agreed to amend the lease agreement. As part of this amendment, the \$377,052 of outstanding electricity use charges was satisfied and as well as \$22,133 in late charges billed by EDC. The \$22,133 settlement was in lieu of the \$168,263 in late charges assessed in the prior audits. In that regard, EDC officials asserted that since the SI Yankees did not meet the attendance threshold that would require base rent to be paid, no late charges should have been assessed or billed.

Controls over Recording of Attendance

We found that the SI Yankees still did not record and calculate attendance based on turnstile count, as required by the lease. However, we were able to reconcile the attendance figures reported to EDC. The SI Yankees reported attendance based on a computerized scanner system that provides for a more complete attendance record. Moreover, the January 4, 2007 lease amendment permits the SI Yankees the use of this electronic scanner of tickets to calculate actual attendance reported to the EDC.

RECOMMENDATIONS

We recommend that the SI Yankees:

1. Ensure that it remits to EDC timely payments for all required electricity payments, signage revenue and sinking fund contributions.

SI Yankee Response: SI Yankee officials submitted an e-mail response expressing no comments on the recommendation.

We recommend that EDC:

2. Ensure that the SI Yankees pay all lease fees on time.

EDC Response: EDC officials stated that “EDC will continue to monitor the account closely and take appropriate action to ensure full and timely payments of all fees by the Staten Island Yankees.”



New York City
Economic Development
Corporation

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April 12, 2007

John Graham, Deputy Comptroller
Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
1 Centre Street
New York, New York 10007-2341

Re: Response to Audit Report on the Compliance of Staten Island Minor
League Holdings, L.L.C. (Staten Island Yankees) With Their Lease
Agreement dated January 1, 2005 – October 31, 2006
FN07-088A

Dear Mr. Graham:

EDC's response to the two recommendations made in the above referenced audit, pertaining to EDC, is as follows:

Recommendation 3: Ensure that the SI Yankees pay the balance of \$600,000 within 90 days of January 4, 2007, as stipulated in the second lease agreement.

EDC's Response: EDC has collected the entire balance of \$600,000 within the stipulated time limit that the second lease amendment required.

Recommendation 4: Ensure that the SI Yankees pay all lease fees on time.

EDC's Response: In addition to the balance of \$600,000, EDC has collected all other stipulated fees. EDC will continue to monitor the account closely and take appropriate action to ensure full and timely payments of all fees by the Staten Island Yankees.

Thank you for the opportunity to respond to the recommendations in the audit report.

Very truly yours,

A handwritten signature in black ink, appearing to read "Deo Singh".

Deo Singh
Controller

cc: Jason Wright
Hope Malleri