Accounting for Sports Franchises

UNIVERSITY OF FLORIDA ACCOUNTING CONFERENCE

November 4, 2011

Justin Webster, Vice President of Finance
DENVER BRONCOS FOOTBALL CLUB
Agenda

1. Introduction
2. League/Team Overview
3. NFL Accounting 101
4. Other Concepts
5. Q & A
Introduction
“BroncoGator™”
League/Team Overview
The NFL is an unincorporated association formed for the benefit of the 32 Member Clubs with the purpose of promoting and fostering the primary business of its Member Clubs. It is comprised of the League Office and its Member Clubs. The League Office, which encompasses the office of the Commissioner as defined by the Constitution and Bylaws (the “Constitution”) is managed through a number of entities:

- Significant entities include:
  - NFL Management Council—collective bargaining
  - NFL Ventures, L.P.
    - NFL Enterprises LLC—NFL.com, Sunday Ticket, NFL Network
    - NFL Properties LLC—licensing, sponsorship, marketing
    - NFL Productions LLC—films
    - NFL International LLC
- Power and responsibilities of the Commissioner include:
  - Interpret and enforce the Constitution
  - Promote the best interest of the NFL
  - Arrange for and sell all national broadcasting and sponsorship rights
  - Arbitrate/resolve disputes
  - Enhance overall operating performance of the NFL and its Member Clubs
Team Structures

- Teams are held in a variety of different structures:
  - Partnerships
  - LLCs
  - S-Corporations
  - C-Corporations

- Year-ends vary
  - Majority 3/31 to match NFL year end - 20 Clubs
  - Remainder are 12/31 (5), 1/31 (2) and 2/28 (5)

- Audit firms are majority ‘Big 4’ but perhaps not as extensive as you might expect — 22 Clubs
Team Owned vs. Publicly Owned Stadium Facilities

- Of the 9 most recently built stadiums, all but one used public financing; of 31 stadiums, only 3 are NOT held through public/governmental entities
  - Municipality (City/County)
  - Special Financing Districts
- % of public funding ranged from 29% - 86%
- League can also contribute to the construction through the NFLs G-3 program
  - G-3 is the NFL’s stadium construction finance program and qualified for a loan supported solely by the Club’s portion of Visiting Team Share club seat receipts
  - Club is required to remit to the NFL the Visiting Team Share for up to 15 years unless the G-3 loan is fully retired earlier
  - In exchange for remitting the Visiting Team Share to the NFL, the NFL will forgive all accrued interest and 1/15th of the total loans on an annual basis

Stadium Operations

- Simple Lease
- Lease and Operate
Organizational Summary
Organizational Summary
History and Company Structure

**History**

- Founded in 1960 as an American Football League team; was Denver’s first major league franchise
- Initially played its home games at Bears Stadium, which was originally a minor league baseball stadium holding 17,000 fans
- Was renamed Mile High Stadium in 1968, which after numerous expansions now held 50,000 fans; further expansion, including luxury suites, eventually led to a facility that held over 76,000
- Purchased by Pat Bowlen in 1984
- Broncos moved to Sports Authority Field (formerly Invesco Field) at Mile High in 2001
PDB Sports LTD

- Established in 1984
- Operates the Denver Broncos Football Club including finance, marketing, public relations and other administration in addition to the football and player personnel functions
- Many employees of PDB Sports also perform duties for Stadium Management Company (affiliated entity)
- PDB Sports derives its revenue from ticket sales, sponsorships and League-shared sources
- Its most significant operating expenses relate to the football team (salaries, ancillary football costs) but also include other operating costs and interest expense
Organizational Summary
History and Company Structure

Stadium Management Company

- Stadium Management Company, LLC (“SMC”) was organized in 1998 to lease and manage the operations of the new natural grass, 76,000-seat, open-air stadium being built in Denver, Colorado currently known as Sports Authority Field at Mile High.
- The stadium’s main tenant is the Denver Broncos.
- Sports Authority Field at Mile High is also used for concerts, Major League Lacrosse, college football, high school football and other events; approximately 300 non-NFL events are held annually at the stadium.
- The stadium’s financing was accomplished via a combination of senior secured debt financing, an NFL G-3 loan and local bonds; Club also contributed to construction.
- The stadium derives its revenue from premium services, advertising / sponsorships, concessions and non-Broncos events.
- Its main operating expenses relate to stadium operations/maintenance and interest costs.
Organizational Summary
Stadium Financing

Metropolitan Football Stadium District (MFSD)

- Public / Private partnership to build stadium
- Bonds were issued in 1999 to fund a portion of stadium construction
- Bonds are paid off via a 0.1% regional sales tax.
- Stadium Management Company has a 30 year lease to manage the stadium (2001-2030)
NFL ACCOUNTING 101
I LOVE ACCOUNTING!
TIM TEBOW

ASSET OR LIABILITY?
NFL Accounting 101
Balance Sheet

What does an NFL Club’s Balance Sheet look like?

\[
\text{ASSETS} = \text{LIABILITIES} + \text{EQUITY}
\]
# NFL Accounting 101
## Balance Sheet

What does the Denver Broncos’ Balance Sheet look like?

<table>
<thead>
<tr>
<th>CURRENT ASSETS</th>
<th>CURRENT LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Accounts Payable - Trade</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Deferred NFL Game Revenues</td>
</tr>
<tr>
<td>Marketable Equity Securities</td>
<td>Luxury Suite and Club Seat Deposits</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>Current portion, Notes Payable</td>
</tr>
<tr>
<td></td>
<td>Current maturities of long-term deferred compensation, bonuses and severance pay</td>
</tr>
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<td><strong>LEASEHOLD INTEREST IN STADIUM FACILITY, NET</strong></td>
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NFL Accounting 101
Balance Sheet

**Leasehold Interest in Stadium Facility, Net**

- Recall that Club contributed to construction (in addition to public debt and NFL financing)
- Recall that Stadium is owned by quasi-governmental financing district (MFSD)
- Asset represents Club’s contribution to the direct construction costs of the Stadium
- Leasehold Interest is amortized over the 30 year term of the Stadium Lease Agreement
**NFL Accounting 101**  
**Balance Sheet**

**Deferred Signing Bonuses, Net**
- Represents signing bonuses paid and/or earned
- Bonuses are capitalized and amortized over the term of the applicable players’ contracts
- If player is released, retires, etc. the remaining unamortized balance of the bonus is expensed in the current year
- Example: Tim Tebow, who signs a 5 year contract, is paid a signing bonus of $975,000 on August 15, 2010:

<table>
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<tr>
<th>Year Ended</th>
<th>Deferred Signing Bonuses (Asset)</th>
<th>Annual Amortization (Player Cost Expense)</th>
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<tr>
<td>3/31/2011</td>
<td>$780,000</td>
<td>$195,000</td>
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<tr>
<td>3/31/2012</td>
<td>585,000</td>
<td>195,000</td>
</tr>
<tr>
<td>3/31/2013</td>
<td>390,000</td>
<td>195,000</td>
</tr>
<tr>
<td>3/31/2014</td>
<td>195,000</td>
<td>195,000</td>
</tr>
<tr>
<td>3/31/2015</td>
<td>-</td>
<td>195,000</td>
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Deferred NFL Game Revenue

- **Sponsorship**
  - Collected depending upon the terms of the contract
  - Revenue is recognized over the life of the sponsorship rights, which may depend on sponsor ‘activation’ (per game, over season or throughout the year)

- **Tickets and Parking**
  - Season Ticket revenue generally collected January – June for renewals
  - Waiting list sales/collection begin April/May
  - Season Ticket Revenue is recognized ratably for each home game
NFL Accounting 101
Balance Sheet

Deferred Season Ticket Revenue Graph

Month Ended
NFL Accounting 101
Balance Sheet

Long-term Deferred Compensation, Bonuses and Severance Pay

- Represents signing bonuses and other compensation for current and former players and employees that has been earned but not paid
- Also includes collectively bargained ‘severance pay’ for players
  - Players with two or more credited seasons (credited season = active player for at least 3 games) are eligible
  - Players accrue a certain amount for each credited season
  - Total obligation is paid to player upon their retirement from the League
NFL Accounting 101
Balance Sheet

What does the Denver Broncos’ Balance Sheet look like?

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TIM TEBOW

ASSET OR LIABILITY?

BOTH!
What does an NFL Club’s Statement of Operations look like?

REVENUES

- EXPENSES

INCOME (LOSS)
What does the Denver Broncos Statement of Operations look like?

REVENUES
- Radio and television
- Admissions
- Sponsorship
- Royalties and other income from NFL entities
- Parking, concessions and other

EXPENSES
- Player costs
- Team costs
- Game costs
- Stadium operations
- General and administrative

OTHER INCOME (EXPENSE)
- Non-NFL Game Revenues, net
- NFL G-3 Construction Subsidy
- Interest expense, net
- Amortization of Debt Issuance Costs
- Amortization of Leasehold Interest in Stadium Facility

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NFL Accounting 101
Statement of Operations

What does the Denver Broncos Statement of Operations look like?

REVENUES
Radio and television
Admissions
Sponsorship
Royalties and other income from NFL entities
Parking, concessions and other

EXPENSES
Player costs
Team costs
Game costs
Stadium operations
General and administrative

OTHER INCOME (EXPENSE)
Non-NFL Game Revenues, net
NFL G-3 Construction Subsidy
Interest expense, net
Amortization of Debt Issuance Costs
Amortization of Leasehold Interest in Stadium Facility

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Other Concepts
Other Concepts

Team Debt

- Debt Ceiling
  - NFL limits Club debt to $150M per team
  - NFL may provide a waiver on the limit—usually for the purposes of stadium construction
- League Approval
  - All debt requires League approval
    - Any borrowings by the Club or any related entity holding football-related assets
    - Any owner borrowings secured or supported by ownership interests or football related assets
  - League reserves right to step in to cure any defaults
Other Concepts

**League Revenue Sharing**

- Approximately 70% of all NFL revenue is shared among its 32 teams
  - Television rights fees
  - Gate receipts
  - Merchandising
  - Digital rights

- **Supplemental Revenue Sharing**
  - Intended to address disparity between highest and lowest revenue earning Clubs
  - Intent is to facilitate parity among teams so that teams are not at a competitive disadvantage as a result of revenue generation
Other Concepts

Player Payroll

- Revenue Based Player Cost (i.e., including benefits)
  - “Revenue derived from the performance of players in NFL Football Games”
  - Player cost ranges, as a percent of revenue, are defined by the CBA
  - League/teams are required to meet minimum cash spending vs. the salary cap
  - Helps to ensure more competitive balance
- Bulk of player salary paid out over 17 weeks of regular season
- Some signing bonuses, incentives and advances are paid outside of the season
- Players also receive smaller per diems for mandatory workout periods/camps
Q & A