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Bajo, Anto; Primorac, Marko

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Football has undergone a gradual transformation, from a game, a sport and a popular social phenomenon to a market activity attracting significant foreign investment all over the world. Clubs are increasingly investing in the transfer of players which is why this sector commands the attention of economic and fiscal systems. There is a set of dilemmas relating to the legal status of football clubs, their accounting policies and tax liabilities, but also the subsidies they receive from the public sector. It is reasonable to wonder to what extent football has remained in the area of public - sporting and financial - interest and to what extent is it subject to private interests, driven by profit motives. To the extent they are dominated by private interests, football clubs should be deprived of their preferential tax treatment, significant public subsidies and other benefits enjoyed at the expense of the public sector.

Introduction

In Croatia there are currently seven football leagues. These are the first (I), second (II) and third (III) Croatian football leagues (cro. *Hrvatska nogometna liga* – HNL), and first, second, third and fourth county football leagues (cro. *Županijska nogometna liga* – ŽNL).¹ This analysis encompasses clubs from the first and second HNL (according to the current schedule for the 2015/2016 season). HNL I includes 10, and HNL II 12 clubs.

The average number of players in the first league clubs is 32, the average age of players being 23.5 years, while the second league teams on average consist of 25 players, with an average age of 24 years (table 1). The average value of players in HNL I is about HRK 4m, the players of Dinamo Zagreb being the most expensive, and those of Inter Zaprešić the cheapest. The average value of second league players is about HRK 0.5m. The total market value of HNL II clubs is, therefore, only slightly higher than HRK 154m and that of HNL I nearly HRK 1.3bn. From a total of 319 players in HNL I, there are 78 foreign players, and in HNL II only 28 of a total of 300 players are foreign. This is logical since the clubs from the first league buy and sell the most players.

¹ At the end of the season, the last ranked team from the first league is relegated to the second league, while the champion of the second league is promoted directly to the first league. In addition, the second last placed team from the first league goes into playoffs with the second placed team from the second league to participate in the first league.



Table 1 Structure of HNL I and HNL II teams in 2015

No.	Football club	Total players	Average age	Foreign players	Total market value of players (mil. HRK)	Average market value of players (mil. HRK)
HNL I						
1	Dinamo	41	23.8	18	415.12	10.16
2	Rijeka	40	25.1	14	265.22	6.63
3	Hajduk	35	22.9	9	181.21	5.18
4	Split	32	24.9	4	94.78	2.96
5	Lokomotiva	32	22.8	3	70.89	2.21
6	Slaven Belupo	31	24.7	5	58.76	1.90
7	Istra 1961	30	24.6	11	54.97	1.83
8	Zagreb	24	22.8	4	54.21	2.26
9	Osijek	31	24.4	5	45.49	1.47
10	Inter Zaprešić	27	23.3	7	26.01	0.96
	TOTAL HNL I	319	23.5	78	1,257.49	3.94
HNL II						
1	Zadar	26	27.1	4	38.67	1.49
2	Hrvatski dragovoljac	27	24.4	5	22.22	0.82
3	Gorica	27	25.7	1	20.70	0.77
4	Šibenik	27	24.9	1	12.89	0.48
5	Dugopolje	32	23.9	3	10.08	0.31
6	Rudeš	29	24.3	2	9.86	0.34
7	Lučko	30	22.3	3	9.86	0.33
8	Sesvete	21	25.0	2	9.33	0.44
9	Cibalia	19	23.3	4	7.96	0.42
10	Imotski	23	26.3	1	6.26	0.27
11	Segesta	28	24.9	1	4.93	0.17
12	Dinamo II	11	19.7	1	1.52	0.14
	TOTAL HNL II	300	24.0	28	154.14	0.51
	TOTAL HNL I & II	619	23.8	106	1,411.64	2.28

Note: The value of players is converted to HRK according to the according to the CNB middle exchange rate as of July 1, 2015 of 7.582113 HRK for 1 euro

Source: www.transfermarkt.co.uk

From the 1995/96 to the 2015/16 season, the ten clubs with the highest profits from transfers have completed from a total of 448 (Varaždin) to 906

(Dinamo) transactions (table 2). Net earnings from the transfer of players for Dinamo in the past twenty years reached over HRK 1bn.

The top ten clubs list with the highest profits from transfers mainly consists of teams from the first league, with the exception of Istra 1961, which is surpassed by Varaždin – a club from the third league. It is therefore likely that these clubs are financially much more successful than second league clubs. Financial analysis below will reveal differences in operations between clubs from the first and the second league.

We analyse the structure of revenues and expenditures, as well as the assets, liabilities and capital of football clubs. Finally, through the calculation of selected financial ratios we assess their relative success in business operations, but also point to the problems associated with their liquidity and indebtedness. It should be noted that one of the second league clubs (Dinamo II) is actually the reserve team of the first league club Dinamo. For this reason the financial analysis includes 21 rather than 22 football clubs.

Table 2 Clubs with highest amount of profit generated through the transfer of players from the 1995/96 to the 2015/16 season (in million HRK)

No.	Football club	Number of buy transactions	Expenditure	Number of sell transactions	Revenue	Profit
1	Dinamo	449	407,84	457	1,423.69	1,015.93
2	Hajduk	467	98,87	508	571.01	472.14
3	Rijeka	325	40,49	318	157.63	117.14
4	Zagreb	219	3,68	236	117.75	114.11
5	Osijek	236	0,53	262	104.03	103.50
6	Split	158	6,26	143	81.13	74.91
7	Lokomotiva	229	6,44	207	60.13	53.68
8	Inter Zaprešić	297	1,02	295	58.46	57.47
9	Slaven Belupo	211	0,49	212	56.11	55.58
10	Varaždin	194	0,03	254	46.40	46.40

Note: The value of players is converted to HRK according to the according to the CNB middle exchange rate as of July 1, 2015 of 7.582113 HRK for 1 euro

Source: www.transfermarkt.co.uk

Revenue and expenditure of football clubs

Football clubs in Croatia operate as non-profit organizations or as public limited companies. In HNL I, both legal forms are equally represented. Clubs from HNL II are generally established as non-profit organizations.

Clubs that strive for the development of the sporting infrastructure, young athletes and the

local community, creating positive external effects (externalities) through the promotion of sporting values in the society should be organized as non-profit organizations. It is logical that such - mostly amateur - clubs should be financed largely by public funds. However, professional clubs focused on generating income (which is not necessarily used for the development of their own players but for the acquisition of better professional athletes), should not enjoy the status of non-profit organizations.



Total revenues of the first league clubs in 2014 were ten times higher than those of second league clubs (table 3). Dinamo generated the highest amount of revenue, while second-placed Hajduk achieved almost half of that amount. Expenditures of the observed clubs were generally significantly higher than revenues. Accordingly, HNL I clubs achieved a cumulative loss of nearly HRK 122m, and HNL II clubs of about HRK 4m. In

HNL I, only Zagreb, Lokomotiva and Istra 1961 achieved positive financial results. The largest loss (over HRK 90m) was made by Dinamo, which generates almost one third of the total revenues of all football clubs from HNL I and HNL II combined. Given the dominance of Dinamo, the analysis is carried out with special reference to Dinamo's business operations.

**Table 3 Operating results of football clubs in 2014
(in thousands of HRK)**

No.	Football club	Type	Revenue	Expenditure	Profit/loss
HNL I					
1	Dinamo	npo	120,925	211,373	-90,448
2	Zagreb (2013)	npo	16,830	14,438	2,391
3	Lokomotiva	npo	33,680	33,044	636
4	Slaven Belupo	npo	14,881	16,208	-1,326
5	Hajduk	plc	69,385	75,329	-5,944
6	Rijeka	plc	67,431	81,799	-14,368
7	Split	plc	30,839	36,920	-6,081
8	Osijek	plc	9,439	14,002	-4,563
9	Istra 1961	plc	17,390	17,353	37
10	Inter Zaprešić	npo	6,513	8,351	-1,838
	TOTAL HNL I		387,313	508,817	-121,504
HNL II					
1	Cibalia	plc	5,568	10,285	-4,717
2	Zadar	plc	7,492	9,180	-1,688
3	Dugopolje	npo	2,876	2,795	82
4	Gorica	npo	3,614	3,609	6
5	Hrvatski dragovoljac	npo	6,402	4,501	1,902
6	Imotski	npo	1,147	1,332	-185
7	Lučko	npo	1,554	1,698	-144
8	Rudeš	npo	2,376	2,083	293
9	Segesta	npo	1,142	1,440	-298
10	Sesvete	npo	1,945	1,320	625
11	Šibenik	plc	2,995	2,721	274
	TOTAL HNL II		37,111	40,962	-3,851
	TOTAL HNL I & II		424,424	549,780	-125,355

Note: npo – non-profit organization;
plc – public limited company.

Source: Football clubs' financial statements for 2014



Operating revenues are predominantly represented in all clubs (table 4). Dinamo Zagreb, Lokomotiva and Slaven Belupo have relatively high other revenues - mainly from the sale of fixed assets and other miscellaneous revenues.

Financial statements are not entirely clear on items included in other revenues, which are high – making the financial reporting in football clubs less transparent.

Table 4 Structure of revenues of football clubs in 2014
(in HRK thousands)

No.	Football club	Type	Total	Operating	Financial	Other
HNL I						
1	Dinamo	npo	120,925	57,808	597	62,519
2	Zagreb (2013)	npo	16,830	7,655	73	9,102
3	Lokomotiva	npo	33,680	5,208	52	28,420
4	Slaven Belupo	npo	14,881	7,953	138	6,791
5	Hajduk	plc	69,385	62,475	1,696	5,214
6	Rijeka	plc	67,431	67,251	180	0
7	Split	plc	30,839	30,511	328	0
8	Osijek	plc	9,439	9,439	0	0
9	Istra 1961	plc	17,390	17,390	0	0
10	Inter Zaprešić	npo	6,513	6,513	0	0
	TOTAL HNL I		387,313	272,204	3,063	112,046
HNL II						
1	Cibalia	plc	5,568	5,565	4	0
2	Zadar	plc	7,492	7,491	1	0
3	Dugopolje	npo	2,876	2,829	0	47
4	Gorica	npo	3,614	3,527	0	87
5	Hrvatski dragovoljac	npo	6,402	4,979	0	1,424
6	Imotski	npo	1,147	1,092	0	55
7	Lučko	npo	1,554	1,554	0	0
8	Rudeš	npo	2,376	2,376	0	0
9	Segesta	npo	1,142	1,084	0	58
10	Sesvete	npo	1,945	1,945	0	0
11	Šibenik	plc	2,995	2,995	0	0
	TOTAL HNL II		37,111	35,436	4	1,671
	TOTAL HNL I & II		424,424	307,640	3,067	113,717

Note: npo – non-profit organization;
plc – public limited company.

Source: Football clubs' financial statements for 2014



Accounting of football clubs

Financial reporting of clubs is not uniform because some clubs use non-profit accounting, and others for-profit accounting. For this reason certain items from financial statements of clubs set up as non-profit organizations were modified to reflect the structure of the financial statements of public limited companies. Although this process can't be completely accurate in all parts of the report, it is necessary in order to make a comparative analysis possible. Other revenues of non-profit organizations include other revenues (from fees and compensation for damages, from the sale of fixed assets and other miscellaneous revenues), whereas financial revenues include revenues from financial assets (interest on outstanding loans, term deposits and demand deposits, default interest and foreign exchange gains). Other categories of revenues (from sales of goods and services, membership dues and membership fees, revenues collected according to special regulations, revenues from non-financial assets and from donations) are considered operating revenues.

**Table 5 Revenue structure of Dinamo in 2013 and 2014
(in HRK million)**

	2013	2014
Sales of goods and services	12.0	11.8
Membership dues and membership fees	0.8	0.9
Revenue from assets	6.7	1.5
Donations	64.2	44.2
Other revenue	133.9	62.5
Total	217.6	120.9

Source: Dinamo's financial statements for 2013 and 2014

Dinamo's revenues were almost halved in 2014 (table 5). In the total revenues structure, donations and other income are the most significant. Revenues from grants in 2014 were HRK 20m lower than in 2013 (table 6). This decrease is mainly the result of lower revenues from international organizations. In 2013 Dinamo received almost HRK 42m from UEFA, but significantly less in 2014 – HRK 23m. Revenues

from donations from the budgets of local government units are generally stable. These are mainly donations from the City of Zagreb in the annual amount of HRK 20m. In comparison to other European first-league football clubs that generate a large part of their revenues by selling goods and providing services, Dinamo realizes almost double the revenue from sales of goods and services through City of Zagreb's donations.

Table 6 Dinamo's donation revenues structure in 2013 and 2014 (in HRK million)

	2013	2014
Local government budgets	22.3	20.5
Foreign governments and international organisations	41.9	23.7
Total	64.2	44.2

Source: Dinamo's financial statements for 2013 and 2014

More than half of the total revenues generated by Dinamo in 2014 relate to other revenues, mainly from the sale of players (fixed assets). Dinamo's other revenues are reduced by half (table 7).

At first glance it may appear unusual that football players are recorded in the balance sheet as assets, but players can be bought in the market, just like any other assets. In order to prevent swapping between clubs during the season, as early as 1885 the English Football Association prescribed the registration of all players

(Morrow, 1997). The transfer market for players was developed as a result of these provisions. With the registration of players the club reserves the right to hold players for the duration of the contract. If another club wants to 'buy' a player for the duration of the contract, it has to pay a fee for the transfer of that right to the home club.

The process of recording the players in a club's assets also affects the expenditures for gradual depreciation of intangible assets.

Table 7 Dinamo's other revenues structure in 2013 and 2014 (in HRK million)

	2013	2014
fees and compensation for damages	0.6	5.0
sale of fixed assets	133.2	56.7
other miscellaneous revenues	0.1	0.7
Total	133.9	62.5

Source: Dinamo's financial statements for 2013 and 2014

The structure of football club expenditures is dominated by operating expenditures (for employees, material expenditures, amortization and depreciation and donations). Dinamo

incurred almost half of the total of HRK 550m of first and second league football club expenditures in 2014 (table 8).



Accounting treatment of football players

The records of the right to registration of players in the financial statements is supported by the International Accounting Standard (IAS) 38, which prescribes the recognition and registration of intangible assets that are not specifically dealt with in other international accounting standards. According to IAS 38, an intangible asset is non-monetary asset without physical substance, which can be *identifiable*. In accounting terms, an asset is a resource - controlled by an entity in whose reports it is registered - which is expected to generate future economic benefits. An asset is identifiable when it is separable, and derives from a contract or other legal rights. Finally, IAS 38 prescribes that intangible assets should be recognized only if the cost of acquiring an asset can be determined reliably.

Morrow (1997) argues justification of accounting records of the right to registration of players as intangible assets on the basis of these criteria. Players who have entered into an agreement with certain clubs are associated with those clubs for a certain period of time in which they are expected to generate economic benefits for the clubs. In addition, the fact that the right emerges from the contract, as well as the right to sell players (separation of rights to players from other assets of the club), confirm the identifiability of the asset. Since players are usually bought for a fee (unlike other employees), the cost of acquiring players can be determined reliably and therefore recorded in the financial statements, in line with the IAS 38. Of course, given the duration of the contract, this intangible asset is also depreciating in the financial statements and amortizing within the stipulated period, mostly without residual value.

It should be noted that - although it is not quite logical - players who were not purchased but have developed in the club can't be recorded on the balance sheet because they do not meet all the criteria laid down in IAS 38. More precisely, because these players are not purchased for a fee, the acquisition cost for them cannot be determined (UEFA 2012).

Dinamo's expenditures were lower in 2014 than in 2013, material expenditures being the most important item (table 9). Most of the material expenditures refer to intellectual and personal services. These are likely to include contractual obligations to players who are not employees of

the club. It is unusual that such expenditures are considered material. In 2014, Dinamo set aside about HRK 13m for its 86 employees. Depreciation expenditures are related to the depreciation of contracts - intangible assets - rights to players.

Financial expenditures in 2014 more than tripled due to a significant increase in interest expense, foreign exchange losses and expenses for banking services. The reason for this was an increase in loan obligations in 2014 (table 14). It is

interesting to note that Dinamo pays out the amount of HR 6.5m per year in current grants and scholarships, while it is – at the same time – financed by donations from the City of Zagreb's budget.

**Table 8 Structure of expenditure of football clubs in 2014
(in HRK thousands)**

No.	Football club	Type	Total (1+2+3)	Operating (1)	Financial (2)	Other (3)
HNL I						
1	Dinamo	npo	211,373	190,097	7,738	13,538
2	Zagreb (2013.)	npo	14,438	12,696	1,055	688
3	Lokomotiva	npo	33,044	30,527	174	2,343
4	Slaven Belupo	npo	16,208	16,050	155	3
5	Hajduk	plc	75,329	70,127	3,200	2,002
6	Rijeka	plc	81,799	81,463	336	0
7	Split	plc	36,920	35,614	1,306	0
8	Osijek	plc	14,002	13,949	53	0
9	Istra 1961	plc	17,353	16,673	680	0
10	Inter Zaprešić	npo	8,351	8,273	78	0
	TOTAL HNL I		508,817	475,468	14,775	18,574
HNL II						
1	Gibalia	plc	10,285	8,781	1,504	0
2	Zadar	plc	9,180	3,292	2,036	3,853
3	Dugopolje	npo	2,795	2,689	21	85
4	Gorica	npo	3,609	2,754	19	835
5	Hrvatski dragovoljac	npo	4,501	4,217	21	262
6	Imotski	npo	1,332	1,282	32	18
7	Lučko	npo	1,698	1,620	78	0
8	Rudeš	npo	2,083	1,646	52	385
9	Segesta	npo	1,440	1,422	1	17
10	Sesvete	npo	1,320	1,311	8	0
11	Šibenik	plc	2,721	2,390	332	0
	TOTAL HNL II		40,962	31,403	4,104	5,455
	TOTAL I & II		549,780	506,872	18,879	24,029

Note: npo – non-profit organization;
plc – public limited company

Source Football clubs' financial statements for 2014



The success of the clubs in achieving financial results can be estimated by comparing their financial indicators – turnover ratios, indicators of effectiveness and profitability ratios (table 10).

Total assets turnover ratio is the ratio of total revenue to total assets, which shows how many monetary units of revenues are generated by

each monetary unit of assets. The higher the ratio, the club is considered to be more successful in the use of available assets. The *average total assets turnover ratio* in HNL I is 0.53, and in HNL II 0.88. This means that HNL II clubs are much more successful in achieving financial results than HNL I clubs. This is confirmed by other indicators as well.

Table 9 Dinamo's expenditure structure in 2013 and 2014 (in HRK million)

	2013	2014
Employees	10.9	13.0
Material	139.0	134.6
Amortization and depreciation	26.5	36.1
Financial	2.5	7.7
Donations	4.9	6.5
Other	41.8	13.5
Total	225.6	211.4

Source Dinamo's financial statements for 2013 and

Indicator of effectiveness of overall operations is calculated as the ratio of total revenues and total expenditures. A higher value is thus desirable in this indicator. Logically, if the value is less than 1, the club operates at a loss. The average effectiveness of overall operations of HNL I clubs in 2014 was 0.76, and in HNL II 0.91. *Net profit margin* is the ratio of net profit and total income, and is calculated so as to determine the capability

of generating a profit in relation to the revenues generated. HNL II clubs are – with an average net profit margin of -0.1 also by this indicator considerably more successful than HNL I clubs, with an average value of this indicator of less than -0.3. This fact is even more devastating taken into account that 10 HNL I clubs employ a total of 309, and 11 HNL II only 90 employees.

Table 10 Indicators of turnover, effectiveness and profitability of football clubs in 2014

No.	Football club	Type	Employees	Assets turnover ratio	Effectiveness of overall operations	Net profit margin
HNL I						
1	Dinamo	npo	86	0.38	0.57	-0.75
2	Zagreb	npo	16	6.08	1.17	0.14
3	Lokomotiva	npo	32	1.80	1.02	0.02
4	Slaven Belupo	npo	17	3.02	0.92	-0.09
5	Hajduk	plc	66	0.32	0.92	-0.09
6	Rijeka	plc	17	1.11	0.82	-0.21
7	Split	plc	30	0.73	0.84	-0.20
8	Osijek	plc	18	0.23	0.67	-0.48
9	Istra 1961	plc	19	0.83	1.00	0.00
10	Inter Zaprešić	npo	8	5.21	0.78	-0.28
	TOTAL HNL I		309	0.53	0.76	-0.31
HNL II						
1	Gibalia	plc	17	0.40	0.54	-0.85
2	Zadar	plc	13	0.62	0.82	-0.23
3	Dugopolje	npo	7	7.16	1.03	0.03
4	Gorica	npo	11	4.75	1.00	0.00
5	Hrvatski dragovoljac	npo	9	6.98	1.42	0.30
6	Imotski	npo	1	25.07	0.86	-0.16
7	Lučko	npo	7	0.23	0.91	-0.09
8	Rudeš	npo	4	4.32	1.14	0.12
9	Segesta	npo	0	3.83	0.79	-0.26
10	Sesvete	npo	9	0.40	1.47	0.32
11	Šibenik	plc	12	2.13	1.10	0.09
	TOTAL HNL II		90	0.88	0.91	-0.10
	TOTAL HNL I & II		399	0.55	0.77	-0.30

Note: npo – non-profit organization; plc – public limited company.

Source: Football clubs' financial statements for 2014

Assets and liabilities of football clubs

Total assets of HNL II clubs are only a bit higher than HRK 42m, while HNL I clubs' assets are as much as 17 times more valuable – amounting to HRK 731m (table 11). Dinamo and Hajduk together

have over HRK 538m in assets. Rijeka also stands out with its financial domination. Due to the size of its assets and the revenue generated, Dinamo should be excluded from the sectoral coverage, so its operations are analysed also separately. Because of the uneven accounting framework certain adjustments to the items in the financial



statements of clubs operating as non-profit organizations had to be made for analysing the structure of assets and liabilities. The assets of non-profit organizations are not classified in reports only as a long-term and short-term, but are also divided into produced and non-produced long-term assets, small inventory, non-financial assets in preparation, produced short-term assets and financial assets (without division into long-term and short-term). Keeping

in mind the deficiencies of such a classification and the specifics of football clubs' operations in Croatia (which in principle should not have large amounts of long-term financial assets), their financial assets are entirely classified as short-term assets, as well as small inventory, non-financial assets in preparation and produced short-term assets. Other asset items are classified as long-term assets.

**Table II Structure of assets of football clubs in 2014
(in HRK thousands)**

No.	Football club	Type	Total	Assets		Expenditures of future periods
				Long-term	Short-term	
HNL I						
1	Dinamo	npo	318,733	148,588	141,031	29,113
2	Zagreb	npo	2,770	233	2,537	0
3	Lokomotiva	npo	18,669	8,960	9,708	0
4	Slaven Belupo	npo	4,924	1,614	2,249	1,060
5	Hajduk	plc	219,444	185,136	31,945	2,363
6	Rijeka	plc	60,600	16,691	43,451	459
7	Split	plc	42,528	36,415	6,113	0
8	Osijek	plc	41,544	39,714	1,330	500
9	Istra 1961	plc	20,937	18,518	2,379	40
10	Inter Zaprešić	npo	1,250	26	1,224	0
	TOTAL HNL I		731,399	455,897	241,968	33,534
HNL II						
1	Cibalia	plc	14,029	11,521	2,508	0
2	Zadar	plc	12,130	1,686	10,444	0
3	Dugopolje	npo	402	194	208	0
4	Gorica	npo	761	109	651	0
5	Hrvatski dragovoljac	npo	917	86	830	0
6	Imotski	npo	46	0	46	0
7	Lučko	npo	6,712	6,382	330	0
8	Rudeš	npo	550	169	381	0
9	Segesta	npo	298	58	133	107
10	Sesvete	npo	4,890	4,705	185	0
11	Šibenik	plc	1,403	18	1,385	0
	TOTAL HNL II		42,137	24,928	17,102	107
	TOTAL HNL I & II		773,536	480,825	259,070	33,640

Note: npo – non-profit organization; plc – public limited company.

Source: Football clubs' financial statements for 2014



Most of the assets consist of intangible assets - rights to players - which are recorded in the balance sheet in accordance with the IAS 38 and amortized annually. Long-term (produced and non-produced) assets of Dinamo in 2014 amount-

ted to around HRK 150m (table 12), the value of buildings, machinery and equipment as well as means of transport being less than HRK 20m. The residual value refers to intangible assets.

Table 12 Dinamo's assets structure in 2013 and 2014 (in HRK million)

	2013	2014
Non-produced long-term	30.7	24.7
Produced long-term	71.6	123.9
Produced short-term	1.6	2.7
Financial	157.0	167.5
Total	260.8	318.7

Source: Football clubs' financial statements for 2014

Financial assets have the dominant role in Dinamo's assets structure. Most of the value of financial assets relates to receivables for revenues (over HRK 125m in 2014), while a smaller proportion consists of cash, deposits, stocks and shares in equity. In 2014 Dinamo also had about HRK 10m claims for loans made to citizens and households as well as to legal entities. It is not very common for a football club to make such loans, especially bearing in mind that a significant part of its funding comes from the city budget.

The financing structure of football clubs is dominated by liabilities. Total liabilities of HNL I clubs amount to over HRK 600m, while their own financing sources stood at slightly less than

HRK 125m (table 13). HNL II clubs have nearly HRK 36m liabilities and just over HRK 6 m of own capital. While it is not unusual for legal entities to borrow in order to finance profitable assets, such a large disproportion of own financing sources and liabilities of football clubs is - due to the specifics of the sector - indeed worrying. Particularly alarming is the finding that of 21 clubs covered by the analysis, 10 clubs (4 from HNL I and 6 from HNL II) have a negative value of capital. This means that their liabilities exceed total assets, i.e. if total assets were to be converted into cash at book value, that amount would not be sufficient to cover the liabilities. A negative value of capital emerges as a consequence of the loss in excess of capital, which makes liabilities become greater than assets.



Table 13 Structure of capital and financing sources of football clubs in 2014 (in HRK thousands)

No.	Football club	Total	Capital and reserves	Liabilities		Revenues of future periods
				Short-term	Long-term	
HNL						
1	Dinamo	318,733	46,629	103,728	167,534	842
2	Zagreb	2,770	-12,531	4,696	10,605	0
3	Lokomotiva	18,669	5,543	10,342	2,782	1
4	Slaven Belupo	4,924	778	3,259	886	0
5	Hajduk	219,444	135,063	63,405	17,053	3,922
6	Rijeka	60,600	10,508	49,693	239	161
7	Split	42,528	-30,659	10,087	63,101	0
8	Osijek	41,544	-33,584	11,613	63,516	0
9	Istra 1961	20,937	4,061	16,877	0	0
10	Inter Zaprešić	1,250	-1,401	1,476	1,175	0
	TOTAL HNL I	731,399	124,407	275,176	326,891	4,925
HNL II						
1	Cibalia	14,029	750	11,629	1,650	0
2	Zadar	12,130	4,322	7,808	0	0
3	Dugopolje	402	-106	508	0	0
4	Gorica	761	19	189	552	0
5	Hrvatski dragovoljac	917	-400	1,087	230	0
6	Imotski	46	-249	91	204	0
7	Lučko	6,712	5,085	1,435	192	0
8	Rudeš	550	-1,230	292	1,488	0
9	Segesta	298	-726	1,017	0	6
10	Sesvete	4,890	4,573	317	0	0
11	Šibenik	1,403	-5,550	6,953	0	0
	TOTAL HNL II	42,137	6,489	31,326	4,315	6
	TOTAL HNL I & II	773,536	130,896	306,502	331,206	4,931

Note: npo – non-profit organization; plc – public limited company.

Source: Football clubs' financial statements for 2014

About 34% of short-term and over 50% of long-term liabilities of both HNL I & II football clubs together relate to the liabilities of Dinamo. Liabilities for loans to banks and other creditors

of Dinamo in 2014 increased almost seven times (table 14). By far the greatest part of newly created liabilities relates to loans from banks and other creditors abroad.

**Table 14 Dinamo's liabilities structure in 2013 and 2014
(in HRK million)**

	2013	2014
Loans from banks and other creditors	23.7	167.2
Domestic liabilities	23.7	52.3
Foreign liabilities	0.0	114.9
Merchandise and other loans	1.0	0.3
Total	24.7	167.5

Source Dinamo's financial statements for 2013 and 2014

The rather unfavourable financial position of football clubs is also confirmed by indicators of liquidity and indebtedness. Liquidity is a characteristic of assets to convert into cash needed to meet liabilities. In other words, clubs' liquidity reveals the ability to meet liabilities in good time.

Current ratio is calculated as the ratio of current assets to current liabilities putting in the relationship the coverage and the need for cash within one year. An indicator value greater than one means that the portion of current assets is financed from long-term sources, which is a characteristic of prudent financial management. Current liquidity of HNL I clubs is 0.88 and HNL II 0.55 (table 15). Thus, HNL I clubs can cover (on average) about 88% of current liabilities with their current assets, and HNL II clubs only 55%. While most football clubs have indicator values far lower than one, there are a few clubs (Dinamo, Zadar, Gorica and Rudeš) with a current ratio greater than one. This finding should be interpreted with caution because these clubs are mostly non-profit organizations with all financial assets characterized as short-term (for the purpose of comparative analysis), which probably overrates their value. This doubt can best be checked by observing the *cash ratio* (ratio of cash and short-term liabilities) which reveals how much of the short-term liabilities can

immediately be covered by the most liquid of assets - cash. HNL I clubs can cover about 12% and HNL II clubs only 3% of current liabilities with cash.

The *debt ratio* is the ratio of total liabilities to total assets and shows what portion of total assets is purchased by borrowing. Preferably, the debt ratio should be 0.5 or less. However, HNL I clubs have a debt ratio of 0.86, and HNL II clubs a slightly lower ratio – 0.85. Only one HNL I club (Hajduk) and two HNL II clubs (Lučko and Sesvete) have a debt ratio of less than 0.5. Other clubs in general have several times higher values, additionally proving their poor financial position and the need for urgent intervention in their financial management in order to maintain the business continuity. The *capital structure* represents the ratio of debt (total liabilities) and equity. The high value of this indicator indicates difficulties in meeting financial obligations – the problem of repaying the principal of debt and interest payments. There is no consensus on what the value of this indicator should be, but the value of debt to equity ratio of 1:1 is commonly characterised as a conservative, and a ratio of 2:1 as the debt ceiling. The debt to equity ratio for HNL I clubs in 2014 was 4.84:1, and for HNL II clubs 5.49:1. These values reveal that the borrowing limit has been broken in even the most liberal financial framework.



Table 15 Selected ratios of liquidity and indebtedness of football clubs in 2014

No.	Football club	Liquidity		Debt ratio	Capital structure
		Current ratio	Cash ratio		
HNL I					
1	Dinamo	1.36	0.01	0.94	5.82
2	Zagreb	0.54	0.00	5.52	-1.22
3	Lokomotiva	0.94	0.04	0.70	2.37
4	Slaven Belupo	0.69	0.20	1.07	5.33
5	Hajduk	0.50	0.02	0.37	0.60
6	Rijeka	0.87	0.59	0.83	4.75
7	Split	0.61	0.00	1.72	-2.39
8	Osijek	0.11	0.01	1.83	-2.24
9	Istra 1961	0.14	0.02	0.81	4.16
10	Inter Zaprešić	0.83	0.00	2.12	-1.89
	TOTAL HNL I	0.88	0.12	0.86	4.84
HNL II					
1	Cibalia	0.22	0.00	0.95	17.70
2	Zadar	1.34	0.00	0.64	1.81
3	Dugopolje	0.41	0.00	1.26	-4.78
4	Gorica	3.45	0.63	0.97	38.44
5	Hrvatski dragovoljac	0.76	0.10	1.44	-3.29
6	Imotski	0.50	0.13	6.45	-1.18
7	Lučko	0.23	0.04	0.24	0.32
8	Rudeš	1.30	1.03	3.24	-1.45
9	Segesta	0.13	0.01	5.32	-1.40
10	Sesvete	0.58	0.30	0.06	0.07
11	Šibenik	0.20	0.01	4.96	-1.25
	TOTAL HNL II	0.55	0.03	0.85	5.49
	TOTAL HNL I & II	0.85	0.11	0.86	4.87

Note: npo – non-profit organization; plc – public limited company.

Source: Football clubs' financial statements for 2014

Conclusion

Comparing the financial positions of clubs from HNL I and II, it is clear that HNL I is a league of professional clubs with a total value of players of about HRK 1.3bn. The professional orientation of HNL I clubs is confirmed by the structure of

players, who are often purchased from abroad for the sake of better results and for the generation of operating revenues. Through such operations, clubs to a lesser extent represent the public good. It is reasonable to question their preferential treatment in terms of structure (organisation), preferential tax treatment and public subsidies.

Not only are non-profit organizations generally not liable to income tax, but the tax treatment of transfers of players is also questionable. Dinamo alone has in the last twenty years generated nearly HRK 1.5bn from transfers. As the largest Croatian football club, Dinamo receives an HRK 20m annual donation from the City of Zagreb, which is more than double the revenues generated from sales of goods and services, or about 25 times more than the revenues from membership dues and membership fees. At the same time, in 2014 Dinamo paid out HRK 6.5m in donations, whereas the financial statements reveal about HRK 10m claims related to loans made to citizens and households as well as to corporates. Due to significant funding from the city budget, the justification of such loans is doubtful.

The financing structure of football clubs is dominated by liabilities. Especially worrying is the fact that of the 21 clubs covered by the analysis, 10 clubs have a negative value of capital. The liabilities of Dinamo represent one half of the long-term liabilities of all HNL I and HNL II clubs. A large part of these liabilities, which in 2014 increased almost seven times, relates to loans from banks and other creditors abroad.

The rather unfavourable financial position of football clubs in Croatia is confirmed by indicators of liquidity and indebtedness. According to all analysed parameters, clubs generally have a pretty bad financial position.

This further indicates the need for urgent regulation of this sector and the establishment of a stable legal and institutional infrastructure for its long-term sustainability. It is vital clearly to profile the status of football clubs and their organizational structure. For publicly financed football clubs, concrete ways and amounts of funding, but also the purpose of funds collected in such a way should be prescribed.

The financial results and liabilities created show that football has grown and has been transformed from being a financially less important social activity with obvious public benefits into a serious branch of the economy with the increasing representation of private interests. Although only a small fraction of clubs in Croatia (mostly those from HNL I) have made the transition into professional sport, it is necessary to make a sharp distinction between the operations of professional and amateur clubs. Football clubs should be treated in the system of public financing in line with their status.

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Fiscus

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