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**Kansas City Zephyrs Case**

1. There are differences between what the players believe to be the profitability of the Kansas City Zephyrs versus the team owner’s idea of profitability. However, these few differences account for a lot of money. The primary difference is how the Zephyrs’ owners state their player salaries. This has to do with how signing bonuses and salaries are expensed, and how salaries are recognized for players who are no longer playing for the team. In terms of the salaries expensed, an exception stated by the owners is a sum of money that is deferred from the highest paid player’s salaries for 10 years. Although these players will not receive this portion of their salaries for a number of years, the full percentage of their salaries is still posted in the current financial statements. The owner stated that this deferred portion of their salaries is to help save the players taxes as well as provide them with income to be distributed when their careers are finished. Additionally, the owners pointed out a portion of the financial statements that is dedicated to non-roster guaranteed contract expenses. This amount represents what salaries are still owed to players that are no longer on the roster.

When this aspect of profitability was discussed with the players, they openly discussed their alternative views. First, in terms of player’s salaries expense, they believe that accounting for the total amount of player’s salaries for the highest paid players, despite the fact that they will only receive a portion of this amount, is misleading and overstated. In terms of non-roster players and their owed salaries, the players believe the amount should be recognized only when the cash amount is paid out, not when they leave the roster. Finally, though it was not discussed by the owners themselves, the players have an issue with how player signing bonuses are accounted for. While the owners expense these bonuses in the year they’re paid, the players insist these bonuses are just another aspect of the compensation package and should therefore be allotted in increments over the duration of the player’s contract.

Another discrepancy is how the roster is depreciated. The owners are amortizing the amount 100% over 15 years because this is the maximum amount the Internal Revenue Code will allow when purchasing a sports team. The players feel as though this is not something that depreciates and therefore have taken out the depreciation expense altogether. They state that this expense only arises when a team is sold, and therefore is irrelevant to account for in their current state of being.

The final problem the players have with the owners’ income statement is about related-party transactions. Two of the owners are the sole owners of the stadium company and the players believe that they are over charging rent to help show a loss for baseball operations.

As a result of the two interviews, the players believe that the owners are hiding actual profits.

1. These differences exist because the owners are trying to make the team look like it is less profitable or losing money, because this ultimately helps them pay less in taxes and less in salaries and player benefits. Because the team is owned by a corporation of only 5 shareholders, two of them being part private owners of the stadium, they are able to partake in “creative accounting” to make their team look less profitable in order to avoid paying taxes. Meanwhile, the players feel as though the team is much more profitable than is being stated. Because players believe the team is more profitable than stated in financial statements, they are not receiving the salary they could be earning or reaping the benefits that they would if the team were “more profitable”. As a result, players want the team to account for these various expenses in a way that will optimize player’s salaries as well as more accurately report how the team is financially performing. Ultimately, what is financially best for the team and the owners and what is financially best for the players are at odds. Both players and owners are seeking a more favorable bargaining position. The owners will have a more favorable position if they look less profitable, while the players will have a more favorable position in terms of negotiating salaries and others benefits if they look more profitable.
2. In order to accurately account for the profitability of the Kansas City Zephyrs, we made a number of compromises that include methods from both the players and the owners accounting styles. In terms of player salaries expenses, we are using both aspects of the player’s income statements as well as the owners. First, we are using the owner’s model to account for bonuses. Bonuses are usually paid out to the players in the first year of the contract, therefore, they should be accounted for when paid rather than amortized over the duration of the contract. The money is being paid out in full in this year rather than being paid in increments, so an amortization expense is unnecessary. Secondly, we agree with the players that the full percentage of money being deferred from the highest salaries should not be accounted for in the current year, but rather the actual sum being paid in that year should be noted. It would not make sense to account for part of an expense that is not actually being paid in this year. Lastly, we agree that salaries owed to those players no longer on the roster should not be accounted for until they are paid. If the transaction has not yet been made, there is no need to consider it an expense on the income statement. As you can see from the attached income statement, we used the current rosters salary amount from the player’s income statement as well as the non-roster guaranteed contract expense amount, then added in a separate section for total player bonuses to account for our changes to the final document.

When it comes to Stadium Operations it is important to recognize that two owners of the team are sole owners of the stadium company.  Because of this they are able to overcharge the team in rent to help show a loss for baseball operations.  After looking into what other stadiums charge teams, the team came up with an average number for stadium costs and reported this on the statement.  When looking at the P&Ls given to us from the Mariners, Angels, Pirates and Marlins, these numbers seem much more comparable to what other teams are reporting. Bill should agree with the team because it is unfair for the owners to reap high profits from artificially high rents on the stadium.     
 All Professional Team Owners are legally allowed for tax purposes to depreciate their roster 100% over 15 years.  Therefore, when the KC Zephyrs are paying their taxes it makes sense for them to use roster depreciation on their income statement.  However, for operating purposes the players are correct that this artificially increases costs.  For operations purposes the roster depreciation will not be recognized.  As shown on the income statement provided, roster depreciation is recognized after Net Operating Income because it will only be used for taxes and not operations.  In short, for operations, Bill should agree with the players.

As a result of our changes to the current 2010 incomes statement, the Kansas City Zephyrs should show a positive operating income before taxes of $14,255,000. Our data suggests that his comprise between player and owner accounting methods will be the optimal process for determining the profitability of the team.

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| **Revised Income Statements** | | |  |  |  |  |
| **Kansas City Zephyrs** | | |  |  |  |  |
| **(In Millions)** | | |  | Year Ending October 31 | | |
|  |  |  |  |  |  | 2010 |
|  |  |  |  |  |  |  |
| **Operating Revenue** | |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Game Receipts | |  |  |  |  | $ 37,240.00 |
| Revenue Sharing | |  |  |  |  | $ 39,157.00 |
| National Television | |  |  |  |  | $ 21,962.00 |
| Local Broadcasting | |  |  |  |  | $ 17,362.00 |
| Concessions, Net | |  |  |  |  | $ 9,112.00 |
| Parking, net | |  |  |  |  | $ 2,328.00 |
| Other |  |  |  |  |  | $ 16,668.00 |
|  |  |  |  |  |  |  |
| **Total Revenue** | |  |  |  |  | $ 143,829.00 |
|  |  |  |  |  |  |  |
| **Operating Expenses** | |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Spring Training | |  |  |  |  | $ 4,188.00 |
| Team Operating Expenses | | |  |  |  |  |
|  |  |  | Players Salaries | |  |  |
|  |  |  | Current Roster | |  | $ 45,899.00 |
|  |  |  | Player Bonuses | |  | $ 14,625.00 |
|  |  |  | Non Roster Guaranteed | | |  |
|  |  |  |  | Contract Expense | | $ 2,000.00 |
|  |  |  | Coaches Salaries | |  | $ 4,930.00 |
|  |  |  | Other Salaries | |  | $ 1,522.00 |
|  |  |  | Misc. |  |  | $ 7,794.00 |
| Player Development | | |  |  |  | $ 8,538.00 |
| Team Replacement | |  |  |  |  |  |
|  |  |  | Scouting |  |  | $ 4,433.00 |
| Stadium Operations | |  |  |  |  | $ 12,962.00 |
| Ticketing and Marketing | | |  |  |  | $ 15,051.00 |
| General and Administrative | | |  |  |  | $ 7,632.00 |
|  |  |  |  |  |  |  |
| **Total Operating Expense** | | |  |  |  | $ 129,574.00 |
|  |  |  |  |  |  |  |
| **Income from Operations Before Taxes** | | | |  |  | **$ 14,255.00** |
|  |  |  |  |  |  |  |
| **Tax Expenses** | |  |  |  |  |  |
| Less: Roster Depreciation | | |  |  |  | $ (16,000.00) |