

Vladan Pavlović², Predrag Mijatović³, Srećko Milačić⁴² University of Pristina, Faculty of Economics (Kosovska Mitrovica)³ Wellness Saruna, Belgrade⁴ University of Pristina, Faculty of Economics (Kosovska Mitrovica)

Financial Reporting of Football Clubs in R. Serbia¹

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Bearing in mind that football has evolved from simple sports event into a specific kind of industry, it is necessary to pay adequate attention to financial reporting of professional football clubs. In principle, financial reporting is determined, among other things, by a legal form of entity. Professional football clubs in Serbia, whether they have a legal form of association or company, report according to Accounting and Auditing Law as well as any other company. The paper indicates the shortcomings of the prescribed balancing scheme for the reporting purposes of football clubs, as well as an inadequate reporting period. The application of a general balance scheme for football clubs reporting makes the basic financial statements virtually useless in understanding the status and development of a club.

Keywords: financial reporting, professional football clubs, legal form

1. Introduction

Having become one of a highly propulsive industries,² football turned out to be more than a sport. According to the analyses of the UEFA, which involves 679 football clubs from 53 member associations, during the 2011-12 season, attendances for the top divisions in Europe totalled over 103 million spectators (UEFA, *Rapport de benchmarking - 11 résultats sélectionnés, exercice financier 2011, 04 février 2013.*, p. 2). That very season, the European top-division football clubs gained 13.2 billion euro (UEFA, *Rapport de benchmarking sur la procédure d'octroi de licence aux clubs, exercice 2011, 04.02.2013.* p.14), and the top twenty clubs combined revenue of 4.4 billion euro (Deloitte, *Fan power Football Money League, Sports Business Group, February 2012, p.2*). the revenue of over 50 million euro has been achieved by 77 European clubs (UEFA, *Rapport de benchmarking sur la procédure d'octroi de licence aux clubs, exercice 2011, 04.02.2013.* p.14). During the period 2007-2011, which was marked by the stagnation of the European economy with an average annual growth of 0.5%, the top-division European clubs combined average annual revenue of 5.6 %. (Deloitte, *Fan power Football Money League, Sports Business Group, February 2012, p.76*). Based on these data, UEFA ascertains that European top-division clubs contribute to overcoming the recession of European countries (UEFA, *Rapport de benchmarking - 11 résultats sélectionnés, exercice financier 2011, 04 février 2013.*, p.2)³

These data speak for themselves about the influence that football has on the world of finance, hence, about the significance of financial reporting of football clubs.

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² The term 'football industry' has become increasingly prominent in the scientific community. There are one-year MBA studies 'Football Industries' at the University of Liverpool, Management School. The media are also keen on using this term. For example, the 'BBC' has published an article under the title 'Football industry's global marketplace' (). It should also be mentioned that the term industry at different times has been assigned many different meanings. (According to Stevanović, S., Simić, J., *Nacionalna ekonomika i privredni sistem, Poljoprivredni fakultet, Beograd, 2013*). In the domicile literature it is common to refer to 'industry as leading field of economic activities of the contemporary development of material production, which is characterized by: developed division of work; mechanical energy production, mineral and raw non-minerals and mass production of standardized goods, which are obtained by mechanical production.' (Stevanović, S., Simić, J., *Nacionalna ekonomika i privredni sistem, Poljoprivredni fakultet, Beograd, 2013*)

³ During the analysed five-year period, decrease of revenue was recorded only in the Balkans and in the Baltic states.

1. Legal form of football clubs

Realising that football is more than just a sport, the English football clubs started the transformation of football clubs from nonprofit associations to companies in the 1970s. The process of transformation of football clubs in companies, under the influence of the English practice, started in other European countries with big football leagues as well. Therefore, the majority of football clubs that compete in the greatest football leagues, was already transformed into sports companies in the nineties. *Dimitropoulos (2006)* points out that Greek football clubs experienced certain changes in the late 1970s, as a consequence of the Law, which aimed at establishing the sense of professionalism in the Greek football. According to the above-mentioned Law, all the football clubs of the first league were transformed into professional football clubs, and were registered as companies. As a result, football clubs have become companies organized and regulated by the Companies Law. According to the UEFA, the legal status and legal form of clubs are irrelevant.

The new Law on Sports (Official Gazette of the Republic of Serbia, No. 24/2011), has enabled football clubs in Serbia to be transformed into companies (Article 73). Since the entry of the new Law into force, both the term 'sports company' and the term 'sports entrepreneur' have been used in Serbia for the first time. The provisions of the Law on Sport are applied on clubs registered as sports companies, and matters that are not regulated by this Law are regulated by the Law on Companies (Article 73, Law on Sport). Therefore, general conditions are applied to sports companies, as well as on other types of economic activities; and profit maximization, i.e. shareholder value maximization, becomes a legitimate operating goal. As stated in the Law on Companies (Official Gazette of the Republic of Serbia, Nos. 36/2011 and 99/2011), a company is a legal entity engaged in a business activity for the purpose of profit generation. (Article 2). However, unlike other companies, football clubs are obliged to reinvest 70% of net revenues in the predominant activity of the company (Article 91, Law on Sports, Official Gazette of the Republic of Serbia, No. 24/2011). According to the Law, a football club can be registered as a Limited company or Joint-stock company. The Law on Sports (Official Gazette of the Republic of Serbia, No. 24/2011) regulates the privatization of football clubs and their transformation into an open Joint-stock company after the sale of capital (Article 178), unless the subject is registered as a sports association, with a minor share of overall state and private capital. It is noticeable that Article 178 of the Law on Sports is not synchronized with the Law on Companies (Official Gazette of the Republic of Serbia, No. 36/2011 and 99/2011), and the Law on the Capital Market, which are not familiar with the form of 'open joint-stock company' (According to the Law on Companies, a Joint-stock company can be 'public company,' and the terms 'open' and 'closed' Joint-stock company are not mentioned).

There is another possibility to register football clubs as sports associations which represent non-profit organizations (Article 31). In this case, the Law on Sports (Official Gazette of the Republic of Serbia, No. 51/2009) indicates the application of general regulations on associations defined in the Law on Associations (Article 73, Law on Sport). According to this, the basic objective of a football club registered as an association is to develop and promote sports. In accordance with the Law, whether the club is organized as a corporation or sports association, the club itself is responsible for its obligations, except in the case of piercing the corporate veil due to the abuse of the company, established by a competent court (Article 75 and Article 98 Law on Sport).

In developed European countries, football clubs often have a legal form of a company. Out of 235 football clubs that participated in the UEFA competitions in the 2011-2013 season, 40% are structured as nonprofit companies or associations (*UEFA, Rapport de benchmarking sur la procédure d'octroi de licence aux clubs, exercice 2011, 04.02.2013. p.32*). Specifically:

- 8% of clubs have the form of a Stock exchange listed company. Seventeen clubs from ten countries have this legal form;
- 22% of clubs are organised as Sporting incorporated entity, established for the purpose of achieving sports objectives. This legal form is recognized by the legislations of sixteen European countries. The business of these companies is regulated by a particular law (is not regulated by the same Law as the Corporate Law);
- 28% of clubs are other entities under the form of company (*Other company-based entity*);
- 8% of clubs are registered as nonprofit companies (*Not-for-profit company*);
- 2% are entities financed by states or regional funds, therefore entities whose founder is a state (*State-funded entity*). This legal form is present only in Serbia, Israel and Russia (just six clubs have this legal form);
- 32% of clubs are structured as associations.

The major number of Serbian sports clubs is structured as sports associations, unlike in other developed European countries. Thirteen out of sixteen Serbian clubs that participate in the Jelen Superleague are structured as sports associations, and only three are structured as companies. Amongst them, one club is registered as a Joint-stock company (FC Smederevo is registered as a Joint-stock company for trade and sports activities, and is classified as a small entity), one club is a Limited company (FC Cukaricki is registered as a Limited company and is classified as a small entity), and another club still has the legal form of social company (FC Rad is still registered as a social company) and it has yet to change its legal form. 'In our community, many are inclined to simply compare the organizational form of our clubs with Real Madrid and Barcelona, exposing alleged similarities in the status and functioning as an argument against privatization, which is the consequence of the lack of knowledge or voluntarism.' (Surbatovic, 2013). In fact, the system of management control that imposes an obligation to a president and members of the club to deposit money, which will be used to cover possible financial damage caused by bad managing, has been established in the biggest Spanish football clubs⁴. (According to: Surbatovic, 2013)

Beginning with the fact that a company is a legal entity engaged in a business activity for the purpose of profit generation (Article 2 Law on Companies), it appears that the operating of these football clubs is very unsuccessful; all three clubs reveal a deficit that exceeds the amount of capital (financial reports for 2008, 2009, 2010 and 2011 are analysed.) However, it must be noticed that operating with a deficit is not characteristic of domestic football clubs. Actually, 63% of European football clubs that participate in the national top league had an operating loss in the 2010-2011 season, while 55 % had a net loss. An overall net loss of these clubs has been 1.7 billion euro, one half of the amount combined among ten clubs. (UEFA, *Rapport de benchmarking sur la procédure d'octroi de licence aux clubs, exercice 2011, 04.02.2013. p.8*).

2. Financial reporting of football clubs

Financial reporting of football clubs in Serbia has been regulated by the Accounting and Auditing Law with supplementary sublegal acts professional rules, since the Law on Sports (Article 73) requires from the sports associations to keep records and submit financial statements in accordance with the accounting and auditing regulations, while an obligation is prescribed to sports association that participate in national, i.e. professional sports competitions, to keep records and submit financial reports in accordance with the regulations on accounting and auditing that are related to companies (Article 74).

Following this, Serbian football clubs that participate in national, i.e. professional sports competitions are required to keep records and submit financial reports (including an audit), in accordance with the Accounting and Auditing Law (Official Gazette of the Republic of Serbia, Nos. 46/2006, 111/2009 and 99/2011), whether they are organized as a company or a sports association.

Reporting of football clubs that participate in the UEFA club competitions is additionally regulated by the Club Licensing Regulation of the clubs of the Football Association of Serbia, organized by the Union of European Football Association (UEFA).

In accordance with the Accounting and Auditing Law, football clubs are obliged to prepare the following: balance sheet, income statement, cash flow statement, statement of changes equity, and notes to the financial statements and statistical annex (Article 25).

Since the Accounting Law (with supplementary regulations), the Law on Sports refers to this Law, does not provide any exceptions to sports clubs, football clubs do not apply the same Chart of Accounts as other companies. They prepare reports on financial statements and income in the prescribed format of the balance sheet and income statement. Henceforward, the adequacy of the specified date of the closing of books of account and balance sheet to the request of the users of financial statements will be examined.

⁴ The current president of Barcelona, Joan Laporta has deposited 50 million euro, and recently elected president of Real Madrid, Florentino Perez was required to make a deposit of 15% of the club's annual budget in order to have his nomination verified. (According to: Surbatovic, 2013.)

2.1 Books of accounts closing date

According to Article 24 of the Accounting Law, legal entities in Serbia prepare and present regular annual financial reports for the current financial year on the 31st of December.⁵

Since the same rules apply for football clubs, they also close books of accounts on the 31st of December. Therefore, the financial reporting period of football clubs, as for other entities, matches with the end of a calendar year. The indicated solution can be severely criticized, since the financial year of football clubs matches with the competing season, and not with a calendar year. A far more appropriate solution would be if football clubs closed their books of accounts at the end of a season, not on the 31st of December. The mandatory conclusion of books of accounts at the end of a calendar year is not a common practice only in this country. Matching of a financial and a calendar years is present in all former Yugoslavian countries, the former Soviet Union countries, the countries that belonged to the Eastern block (except the Czech Republic and Slovakia), the Scandinavian countries and Turkey (34 UEFA member countries in total).

Unlike this practice, in the countries with a developed accounting profession (as well as in the countries that take an example from these countries), football clubs close their books of accounts in May or June, in order to have financial reports related to a period that matches with the sports season. Consequently, in seven developed European countries financial books are inevitably closed in summer, while in twelve countries the legislator gave an optional right to clubs to close their books of accounts at the end of a season (in summer) or at the end of a calendar year. Football clubs from Scotland, England, Holland, Austria, Spain, Portugal and Greece that participate in the UEFA international competitions close their books of accounts on the 31st of May, while clubs from Northern Ireland, France, Belgium, Germany, Denmark, Switzerland, the Czech Republic, Slovakia, Italy, Malta, Cyprus and Lichtenstein close their books of accounts on the 30th of June. Exceptions are teams from Wales, Ireland and Finland, which close their books of accounts on the 30th of November. (UEFA, *Rapport de benchmarking sur la procédure d'octroi de licence aux clubs, exercice 2011*, 04.02.2013. p.34).⁶

2.2. Reporting of professional football clubs in Serbia

In terms of Paragraph 9. IAS1, the presentation of financial reports, the primary objective of general purpose financial statements is to provide information about financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions (According to MSFI: published until January 1, 2009: IAS 1, SRRS, Belgrade 2010, p.15). It can be claimed that the prescribed balance schemes are not appropriate for football clubs. Since football clubs drastically differ from other economic entities, it is desirable to prescribe balance schemes that are appropriate for them.

2.2.1. Income reporting

During the last two decades, there has been a significant redistribution of the amount and ratio of certain types of football clubs revenue, thus the new types of revenue emerge, according to the amount they contribute to the major sources of income. This raises the question of an adequate classification of revenue and expenditure for the assessment of business performance of football clubs.

According to the prescribed scheme of income statement in the Republic of Serbia, operating revenues have been arranged according to sales revenue, changes in inventories, and other operating revenue. In reference to football clubs, the above-mentioned classification does not meet the information requests of stakeholders. Managers, investors, creditors and the community cannot comprehend the operation of the clubs, unless revenues are classified as:

⁵ In accordance with the Law, preparation and presentation of regular financial reports at the last day of a financial year, which differs from a calendar year, is allowed in exceptional cases, and with the consent of the Minister of Finance when a dependent legal entity and branch is related, and whose parent company is based abroad and has a financial year that is different from a calendar year (Article 24).

⁶ FC „Liverpool“ (England) has recently decided to change the date of financial reporting, in order to have a financial report matched to a sport season, thus since 2012 they have always reported on the 30th of May, instead of the 31st of July.

- (a) Matchday revenue;⁷
- (b) Broadcasting revenue;⁸
- (c) Commercial revenue; (d) Profit/loss on disposal of intangible assets-players.⁹

The above described classification of revenue has become more common in countries with accounting tradition. A comparative analysis of clubs, as well as understanding club development is impossible without a disclosure of revenues classified as described above. Therefore, operating analysis is almost pointless without this information.¹⁰

Clubs should aim to maximise all these revenues. With the maximization of certain revenues, richer European clubs manage to balance revenues. With approximately the same percentage of shares of the mentioned revenues, clubs diversify business risk on an overall revenue and performance of a club by reducing a potential impact of a lower sports results, disadvantage of TV rights and sponsorship contracts.¹¹

Club Licensing Regulations of the Football Association of Serbia (hereafter FAS), to a certain extent, regulate the content of income statement rather incomprehensibly. In fact, in Point C1 of Annex III, which is an integral part of the Regulations, it is required in terms of the content of the income sheet statement to present (a) ticket sales revenue; (b) sponsorship and advertising revenue; (c) broadcasting revenue; (d) merchandise and services revenue; (e) other operating revenue. While in point 2, management is allowed to present the indicated items in the notes to the financial statement, if it has been determined that it is more correct to present revenue in that very format. It is very important to reflect on certain issues here.

Firstly, the prescribed balance sheets in Serbia are binding, so the FAS Regulation is in contradiction to the Accounting Law, since the clubs cannot present revenue in income statement, as required in Point C2. Consequently, the management cannot choose whether it is 'better' to present revenues according to the requests set out in C1 of the balance, or to present it in notes, as it is allowed in Point C2. It must be noted that point C2 is in conflict with the objective levied in C1, since point C1 explicitly states the minimum requirements as regards the content of the balance sheet. Point C2 does not only contradict Point C1, but also the very logic of reporting. Actually, it is impossible to justify the circumstances that led management to consider that it is better to present the indicated items of revenue in financial statements, even if this were allowed by regulations. The option given to the management of a club to decide on which way is 'better' to present revenue is 'of imported' nature. In fact, both points C1 and C2 of the FAS Regulations are a literal interpretation of points C1 and C2 of the UEFA Club Licensing and Financial Fair Play Regulations (*Règlement de l'UEFA sur l'octroi de licence aux clubs et le fair-play financier, Edition 2012, 01 juin 2012, ANNEXE VI: Exigences minimales en matière de presentation, p.59-60*).

Secondly, the FAS Regulations do not foresee an obligation to individually present a profit and a loss on transfers of players in the income statement, 'misappropriation of funds' within non-operating results (Club Licensing Regulations of the Football Association of Serbia, p. 79.) It must be noticed that it is inappropriate to entitle the sale (transfer) of players a "misappropriation of funds.", as it is commonly said, i.e. "rights" or "license", which is more accurate. And it is even more inappropriate to present this profit/loss together with profit/loss from the sale of fixed assets. The question is whether a profit from the sale of players is a non-operating revenue or an operating revenue after all. Actually, this revenue presents the main source of revenue to many clubs, along with the sponsorship contracts revenue. This situation is very common in teams competing in a less commercialized leagues and competitions, and the domestic league is just that

⁷ Matchday revenue is primarily related to ticket and season ticket sale revenue. However, all significant revenues also come from amusement activities, food and beverages sales, club's museum tickets sale, sales of equipment and properties, etc.

⁸ In the last two decades, broadcast revenue has increased drastically, as a consequence of the appearance of satellite television, so these revenues take greater share of the overall revenue.

⁹ Transfer revenues derive from the sale of a player who is under contract.

¹⁰ For example, it is impossible to evaluate the importance of competitions in the top-division leagues in Europe, without considering the participation of certain types of operating revenue

¹¹ Regardless the transfer of players revenue, the Real Madrid football club has the best balance within revenue, where the ratio of three types of revenue is 30 % "matchday" revenue, 36% "broadcasting" revenue and 34% "commercial" revenue. Concerning the transfer of players revenue in big European football clubs, they have taken up proportionally much less share in comparison with other three mentioned categories. According to Deloitte & Touche. (2011). Annual report of professional football finance. London

type. The point of view, which can be argumentally defended, is that for a club whose business orientation is to 'buy players' and later 'sell' them at a higher price, the profit earned in this manner is of an operating and not of a non-operating nature. On the other hand, profit and loss presented within operating revenues would be an accounting precedent.

Nevertheless, the Regulations on the Football Association of Serbia, by necessity, adopted an attitude from the UEFA Club Licensing and Financial Fair Play Regulations that profit earned from the sale of players is a non-operating one. However, unlike the FAS Regulations, the UEFA Regulations impose an obligation on a separate presenting of the profit and loss in the income statement, on the basis of transfer of players (*Règlement de l'UEFA sur l'octroi de licence aux clubs et le fair-play financier, Edition 2012, 01 juin 2012, ANNEXE VI: Exigences minimales en matière de présentation, p.59-60*), and not together with profits and losses from the sale of fixed assets, which is the case in Serbia. Concerning operating incomes, non-compliance of the UEFA Regulations and the Club Licensing Regulations of the Football Association of Serbia, exists only in solidarity payments revenues and UEFA premiums, whose revealing is explicitly required by the UEFA Regulations, while it is not mentioned in point C1 in the Annex to the FAS Regulations.

2.2.2. Reporting on financial position

The prescribed scheme of balance sheet in the Republic of Serbia does not serve to the requirements of users of financial statements either. The most valuable property of football clubs are contracts signed with players, i.e. players themselves. In the recent years, an attitude prevailed that acquired players should be presented in a balance sheet as intangible assets. In football clubs that are not the owners of a stadium, and that participate in the UEFA competitions¹²

, players themselves are the largest funds, with a tendency to constantly increase the share of total assets. Logically, it is necessary to present 'players' i.e. contractual rights in relation to them, as a separate balance sheet item. Therefore, the UEFA Club Licensing and Financial Fair Play Regulations, and pursuant to this the Club Licensing Regulations of the Football Association of Serbia, require their separate presentations. (*Règlement de l'UEFA sur l'octroi de licence aux clubs et le fair-play financier, Edition 2012, 01 juin 2012, ANNEXE VI: Exigences minimales en matière de présentation, p.59*; Section B1 Annex III Regulation on Licensing of the clubs in the Serbian Football Association, page 77).¹³

Concerning working capital, an item of particular importance is the claim of transfers of players, and accordingly the obligations deriving from the transfers. These items are necessary to present, in order to understand the business of football clubs. As expected, their presentation is required by the UEFA as well (the same Article).

2.2.3. Cash Flow Reporting

The Cash Flow Report has been in the focus of users of financial statements in the recent years. This report enables users of financial statements to understand the amount of cash and for what activities the cash is generated, and how it is used. Everything that has been stated concerning revenues, is in relation to cash flow as well. Hence, understanding the cash flow of football clubs, inevitably involves reporting on the following: cash generated on a matchday; cash generated by broadcasting revenue; cash generated from the implementation of sponsorship agreements; cash generated from the sale of players, and cash expenditure for buying players licence. In the UEFA Club Licensing and Financial Fair Play Regulations, and in Club Licensing Regulations of the Football Association of Serbia, cash flows that are required to be presented are not explicitly mentioned.

¹² Out of 232 football clubs that participated in the UEFA competitions in the 2012-2013 season, 124 of football clubs (53%) do not have their own stadium. According to UEFA, Rapport de benchmarking sur la procédure d'octroi de licence aux clubs, exercice 2011, 04.02.2013, p.31

¹³ In point 2. of the same section, a possibility is given to management to present the value of players in notes to financial reports, if they find it more appropriate. Since the same formula applies for the presentation of revenue, the above-mentioned criticism relates to point 2, section B as well.

Conclusion

For many years, football clubs have been the focus of football fans, but they have become the centre of attention for businessmen and community as well. There are many different legal forms of football clubs in Europe, and the forms of companies prevail in the developed countries. In Serbia, football clubs can either be in the form of a company or of a sports association. However, regardless of their legal form, professional football clubs in Serbia are required to prepare books of accounts and submit financial reports in accordance with the accounting and auditing regulations, which are related to companies. The paper emphasizes certain characteristics of football clubs in relation to other companies, and accordingly, the shortcomings of the recommended balance scheme, as well as the inadequacy of a reporting period. Respecting the principles of transparency requires the following: an adequate disclosure of the most important football clubs revenues and expenditures, presenting players under contract as a separate balance sheet item, as well as presenting of the claims of transfer of players as a separate item, together with the obligations that derive from the transfer. Moreover, it is necessary to modify a cash flow report, in order to make it more appropriate to the needs of the users of financial statements. Without the disclosure of these items it would be rather difficult to understand the operations of a club. The football clubs in Serbia can disclose the requested information, in the notes to a financial report. Clubs that submit requests for licensing to participate in the UEFA competitions are obliged to do this. However, it would be much more appropriate to have football clubs use the financial reports that are tailored to their specific characteristics. In this way, the financial statements of football clubs would be more informative and appropriate for financial analysis. A balance sheet and an income statement would provide an insight into a financial position and earning capacity, while notes to the financial statements would have their true purpose – to deliver additional information about the balance positions. The application of the universal balance scheme to the reporting of football clubs makes elementary financial reports almost inadequate for understanding the position and development of clubs, while notes to financial reports are practically raised to the level of elementary financial reporting. Secondly, standardization of balance sheet, which are adjusted to football clubs, would also help football clubs that do not apply for the UEFA license to report more adequately.

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About the Author

dr Vladan Pavlovic

University of Pristina, Faculty of Economics (Kosovska Mitrovica)
vladan.pavlovic@pr.ac.rs

Vladan Pavlovic was born on December 16, 1971 in Belgrade. He holds bachelor's and master's degree from the Faculty of Economics in Subotica, and a Ph.D. degree from the Faculty of Business Studies, Megatrend University, where he earned the title of assistant and associate professor. He was promoted into full time professor at the Faculty of Economics in Pristina. He is engaged as a research associate at the Economic Institute (Belgrade). He has published numerous papers in international and national journals.



MSc Predrag Mijatovic

Wellness Saruna, Belgrade
serbos@live.com

Predrag Mijatovic was born on December 27, 1981 in Belgrade. He graduated from the Faculty of Sports and Physical education, University of Belgrade, at the department of strength and conditioning in 2010. He earned his master's degree in economics from the Faculty of Business Studies, Megatrend University in 2013. For the last eight years he has worked as a strength and conditioning coach in the "Saruna" club



dr Srecko Milacic

University of Pristina, Faculty of Economics (Kosovska Mitrovica)
srecko.milacic@pr.ac.rs

Srecko Milacic was born on March 12, 1965 in Pristina. He graduated from the Faculty of Economics in Pristina as the first in class. He earned his master's degree from the Faculty of Economics, in Belgrade and his PhD from the Faculty of Economics in Pristina, where he earned all academic titles. He was a scholar of the Japanese "Sasakawa" foundation. In addition to his engagement at the Faculty of Economy in Pristina, he was engaged as associate at the Institute for Economic Research in Pristina and NICEF where he took part in the drafting of many investment projects and economic assessments. From 2001 to 2006, he was the chairman at the Department for Finances and Foreign Trade. In 2004, he was elected president of the Faculty Council. Since 2006, he served as Dean of the Faculty of Economics for two terms. Since October 2012 he has served as the rector of the University of Pristina.

