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# Accountant blows whistle on numbers

**BUSINESS OF SPORTS**

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Al Rosen, a forensic accountant, has dedicated his life to ferreting out the truth behind numbers, stories that might not be obvious. Numbers, Rosen will tell you, are an imprecise business, on Bay Street, where he works, or at the hockey rink. That numbers have an auditor's stamp on them doesn't always count for much in Rosen's books.

"People think accounting's precise, and it's nothing of the sort," Rosen says. "The auditor just asks, 'Did you play by the rules?' And the rules are loosey-goosey."

Rosen and his son Mark run two small firms on Bay Street: Accountability Research, which provides independent investment advice; and Rosen & Associates, an accounting firm that specializes in litigation and investigations.

Al Rosen first watched pro hockey when he was growing up in Vancouver, sneaking into games at the old Pacific Coliseum in East Van. "Security wasn't that efficient," Rosen remembers.

The game has radically changed since his boyhood, and Rosen, when he attends games, is at the heart of how successful the NHL can be. In the eight years since the last lockout, the Leafs' value has more than doubled to $500-million-plus (all currency U.S.).

In the same eight years, the NHL's revenue has shot 50 per cent higher to $3.3-billion. This "revenue" is actually revenue minus some costs, what the league calls "hockey-related revenue." But even with this figure so much higher than before, the league claims it has lost $240-million over the past two seasons, according to an unnamed NHL source and a second source cited by RDS this month.

Bill Daly, deputy commissioner of the NHL, offered a couple of responses to questions about the league's accounting and income statement. On the costs subtracted from total revenue to arrive at hockey-related revenue (HRR), Daly said by e-mail: "[HRR] allows for the deduction of some expenses, but not all expenses."

He didn't comment directly on the RDS report, but said: "Also, [HRR] doesn't measure or reflect profit/loss."

On team and league accounting, one owner said the financial reporting system in the NHL is "very structured. You can't play games."

Some people might argue that a business that has grown 50 per cent but is losing money might be run by owners and managers who aren't ace business people. Perhaps the business expanded too much, or moved into markets where demand was weak.

The NHL also has a sort of monopoly on pro hockey, with cities that want teams in competition for few options. Then, often, cities will subsidize arenas for teams to play in.

There are disputes about how to count the money the sport earns, and, in this lockout, with 61 exhibition games already cancelled, the NHL is once again claiming losses as it demands major cuts in players' salaries.

Rosen has a reputation for being a skeptic. In 2005, he was called "the undisputed reigning champion of forensic accounting in Canada." He cites several ways to be loosey-goosey with numbers, one of which is the many judgment calls on what costs are subtracted from deemed revenues.

Another question is "transfer pricing," for which there are rules in business in general, but which still involves decisions within a range of outcomes. Transfer pricing involves corporate cousins – related parties – selling and buying with each other. Where are the costs counted, and where do the profits pile up? In hockey and other sports, this can involve everything from beer to jerseys, upward to big items like regional television rights.

So even though it is widely known there are financial sinkholes in fringe NHL markets such as Phoenix, can the league in its 30-team entirety really be losing money?

"I doubt it," Rosen says.

In the lockout eight years ago, one of the more contentious points of debate was how the owners counted their money. What is today called hockey-related revenue was then called unified report of operations. Arthur Levitt, a former chairman of the U.S. Securities and Exchange Commission, was hired by the NHL to vet the league's accounting. He concluded the NHL was doing a fine job counting the numbers.

As a privately held business, the NHL does not have to legally disclose any financial information, as would a public company whose shares are traded on a stock exchange. The NHL releases fractions of information, and always to look its best, or worst, depending on the situation.

In the 2002-03 season – according to the Levitt report in February of 2004, issued ahead of the last lockout – the NHL posted an operating loss of $273-million (excluding expenses such as interest, capital costs and depreciation). The loss came after combined operating revenues of $1.996-billion.

So at least on the NHL's own numbers, hockey is doing better in 2011-12, with hockey-related revenue of $3.3-billion and the rumoured loss of about $120-million.

In the Levitt report, a problem highlighted for 2002-03 was players getting 75 per cent – about $1.5-billion – of the operating revenues. The subsequent, and just expired, collective agreement gave the players far less: 54 per cent of hockey-related revenue, which ticked up to 57 per cent as revenues rose to record heights.

The idea of 50-50 – similar to the NFL and the NBA – is seen as a "fair" split for the NHL. For Vancouver Canucks defenceman Kevin Bieksa and other players, the league's problems are the owners' fault. And they're irked that the idea of 50-50 is viewed as "fair."

"We'll take 50-50, for sure, put more into the pie, and we'll take 50-50," Bieksa says.

Accounting is less of an issue than it was eight years ago, but it remains a point of discord. Last January, the league and the National Hockey League Players' Association stated they had settled a dispute over 2010-11 hockey-related revenue. In a one-paragraph joint statement, the two sides said they had reached "an agreement about how some of the disputed HRR issues will be addressed for this season (2011-12)."

It wasn't mentioned, but the dispute centred on several clubs, including Nashville, Washington and (league-owned) Phoenix, and how they counted the dollars at the till.

The now expired collective agreement is 472 pages long. The biggest chunk of the document is article 50, "Team Payroll Range System." It begins on page 160 and steamrolls on for more than 80 pages before it concludes on page 242, and then there are many more pages related to article 50 – nearly 100 pages – in the exhibits after the main agreement.

In just one of the numerous clauses in Article 50 is "Non-Arena Novelty Sales" on page 170. This includes a store that sells team merchandise away from the hockey arena, such as at a team-branded store. As with other hockey-related revenue items, the owners are allowed to minus off as many costs as are outlined. Revenues for non-arena novelty sales can be reduced as far as, but not lower than, $0.

It is exactly this sort of financial leeway that has made a life-long skeptic of Al Rosen.

"The message has to be," Rosen says, "you can't believe the figures, audited or not."