

The Sunderland Association Football Club Limited
Annual report and financial statements
for the year ended 31 July 2016

Registered number 49116

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The Sunderland Association Football Club Limited

Annual report and financial statement

for the year ended 31 July 2016

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The Sunderland Association Football Club Limited

Corporate directory

Registered number

49116

Registered office

The Sunderland Stadium of Light
Sunderland
Tyne and Wear
SR5 1SU

Bankers

Barclays Bank plc
Barclays House
5 St Ann's Street
Quayside
Newcastle Upon Tyne
NE1 3DX

Security Benefit

One Security Benefit Place
Topeka
KS 66626-0001

Solicitors

Macfarlanes LLP
20 Cursitor Street
London
EC4A 1LT

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square South
Orchard Street
Newcastle upon Tyne
NE1 3AZ

Board of directors

The directors of the Company who served during the year and up to the date of signing the financial statements were:

E Short	(Chairman)
M E Bain	(Chief Executive) (appointed 1 July 2016)
M Byrne	(Chief Executive) (resigned 8 March 2016)
A Lowes	(Finance Director)
G Hutchinson	(Commercial Director)
P M Andersson	(Director)

The Sunderland Association Football Club Limited

Strategic report for the year ended 31 July 2016

Registered number 00049116

Principal activities

The principal activity of the Company is that of a professional football club.

Business review and future developments

The financial results for the year ended 31 July 2016 show an increase in turnover to £104.1 million (2015: £97.0 million). Continued investment in the squad ensured the Club retained Premier League status. Despite increased turnover, increased interest costs and operating expenses increased the loss on ordinary activities before taxation to £33.8 million (2015: £26.7 million).

The Company is deemed to be a going concern due to the on-going support of the ultimate controlling party Mr Ellis Short.

Principal risks and uncertainties

The directors consider the major risk of the business to be a significant period of absence from the Premier League. Ongoing investment in the playing squad aims to reduce this risk.

Key performance indicators (“KPIs”)

The directors consider the KPI's of the business to be revenue levels (heavily reflecting league status), operating costs (particularly player costs) and the player performance. Other risks are recognised and managed appropriately, primarily by internal management. These include financial, commercial and health and safety issues.

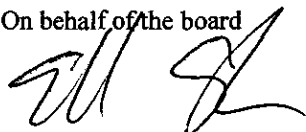
Financial risk management

The Company's activities expose it to a wide variety of financial risks: market risk, credit risk and liquidity risk.

Credit risk arises from cash and deposits with financial institutions, as well as outstanding receivables. The credit risk to the business is managed by close monitoring of debts. Regular reviews of outstanding debts are performed by management and reported monthly to the directors.

The directors consider the main market risk to the business to be interest rates on the bank loan and the banking facilities. This risk is managed by fixing the interest rate on the facilities. The company does not undertake interest or foreign currency hedging. The liquidity risk to the business is managed by the ongoing forecasting of the cash flows of the business.

On behalf of the board



E Short

Chairman

18 January 2017

The Sunderland Association Football Club Limited

Directors' report for the year ended 31 July 2016

The directors present their report and the audited financial statements of The Sunderland Association Football Club Limited ("the Company") for the year ended 31 July 2016.

Directors

The directors who served during the year and up to the date of signing the financial statements are shown on page 1.

Dividends

The directors do not recommend the payment of a dividend (2015: £nil).

Employees

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status and offers appropriate training and career development for disabled staff. If members of staff become disabled the Company continues employment wherever possible and arranges retraining.

The Company is also committed to providing employees with information on matters of concern to them on a regular basis, so that the views of employees can be taken into account when making decisions that are likely to affect their interests. In addition, the Company encourages the involvement of employees by listening to their concerns.

Executive management are regularly updated on the performance of the Company via monthly management meetings. This information is then communicated to staff via departmental briefings and internal announcements.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Sunderland Association Football Club Limited

Directors' report for the year ended 31 July 2016 (continued)

Statement of directors' responsibilities (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activities, risks and financial risk management

These are dealt with in the Strategic report.

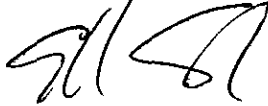
Disclosure of information to independent auditors

Each of the persons who are directors at the date of approval of this report confirm that:

- (a) there is no relevant information of which the company's independent auditors are unaware, and
- (b) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

On behalf of the board



E Short

Chairman

18 January 2017

The Sunderland Association Football Club Limited

Independent auditors' report to the members of The Sunderland Association Football Club Limited

Report on the financial statements

Our opinion

In our opinion, The Sunderland Association Football Club Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 July 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 July 2016;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

The Sunderland Association Football Club Limited

Independent auditors' report to the members of The Sunderland Association Football Club Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

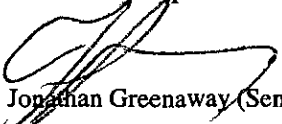
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Jonathan Greenaway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
26 January 2017

The Sunderland Association Football Club Limited

Statement of comprehensive income for the year ended 31 July 2016

		2016	2015
	Note	£'000	£'000
Turnover	1	104,072	97,007
Cost of sales		(1,931)	(350)
Gross profit		102,141	96,657
Net operating expenses	2	(132,856)	(120,138)
Operating loss		(30,715)	(23,481)
Profit on disposal of players' contracts	3	5,050	3,867
Loss on ordinary activities before interest and taxation		(25,665)	(19,614)
Interest receivable and similar income	4	6	8
Interest payable and similar charges	5	(8,126)	(7,071)
Loss on ordinary activities before taxation		(33,785)	(26,677)
Tax on loss on ordinary activities	8	-	-
Loss for the financial year and total comprehensive expense		(33,785)	(26,677)

All operations are classed as continuing.

There is no material difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents.

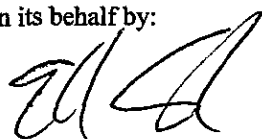
The Sunderland Association Football Club Limited

Balance sheet as at 31 July 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Intangible assets	9	52,911		60,260	
Investments	10	23,387		20,000	
Tangible assets	11	14,801		15,108	
			91,099		95,368
Current assets					
Inventories	12	1,419		556	
Debtors	13	21,897		20,674	
Cash at bank and in hand		26,783		2,117	
			50,099		23,347
Creditors: amounts falling due within one year	14	(146,237)		(94,052)	
Net current liabilities			(96,138)		(70,705)
Total assets less current liabilities			(5,039)		24,663
Creditors: amounts falling due after more than one year	15		(101,456)		(97,373)
Net liabilities			(106,495)		(72,710)
Capital and reserves					
Called up share capital	18		30		30
Share premium account			105,596		105,596
Revaluation reserve			82		82
Other reserves			6,699		6,699
Profit and loss account			(218,902)		(185,117)
Total shareholders' deficit			(106,495)		(72,710)

The financial statements on pages 7 to 31 were approved by the board of directors on 18 January 2017 and were signed on its behalf by:

E Short
Chairman



Registered number 49116

The Sunderland Association Football Club Limited

Statement of changes in equity for the year ended 31 July 2016

	Called up share capital £'000	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000	Total shareholders' deficit £'000
At 1 August 2014	30	105,596	82	-	(158,440)	(52,732)
Loss for the financial year	-	-	-	-	(26,677)	(26,677)
Other comprehensive income for the year	-	-	-	6,699	-	6,699
Total comprehensive expense for the year	-	-	-	6,699	(26,677)	(19,978)
At 31 July 2015	30	105,596	82	6,699	(185,117)	(72,710)
At 1 August 2015	30	105,596	82	6,699	(185,117)	(72,710)
Loss for the financial	-	-	-	-	(33,785)	(33,785)
Other comprehensive expense for the year	-	-	-	-	-	-
Total comprehensive expense for the year	-	-	-	-	(33,785)	(33,785)
At 31 July 2016	30	105,596	82	6,699	(218,902)	(106,495)

The Sunderland Association Football Club Limited

Statement of accounting policies

General Information

The Sunderland Association Football Club Limited operates a Premier League football club. The company is a privately owned company limited by shares and is incorporated and domiciled in England.

The address of its registered office is The Sunderland Stadium of Light, Sunderland, Tyne & Wear, SR5 1SU

Statement of compliance

The financial statements of Sunderland Association Football Club Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

This is the first year in which the financial statements have been prepared under FRS 102. Refer to note 24 for an explanation of the transition.

In the transition to FRS 102, the Group has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the company is provided in note 24. On first time adoption of FRS 102, the company has not retrospectively changed its accounting under old UK GAAP for accounting estimates.

Basis of preparation of financial statements

The financial statements have been prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below. The company's functional and presentation currency of these financial statements is sterling.

Consolidated financial statements

Consolidated financial statements are not submitted as the Company is exempt from the obligation to prepare consolidated financial statements under Section 400 of the Companies Act 2006. The results of subsidiary undertakings are dealt with in the consolidated financial statements of the parent undertaking Sunderland Limited.

Exemptions for qualifying entities under FRS 102

The company has adopted the following disclosure exemptions, by virtue of being a qualifying entity in accordance with FRS 102:

- the requirement to present a statement of cash flows and related notes
- financial instrument disclosures, including categories of financial instruments, income, expense, gains or losses relating to financial instruments, and exposure to and management of financial risks
- the requirement to disclose key management personnel compensation.

Details of the parent undertaking of the group in which the company is consolidated are provided in note 23.

The Sunderland Association Football Club Limited

Statement of accounting policies (continued)

Going concern

The ultimate controlling party has indicated their willingness to continue to support the operations of the Company for the foreseeable future, which is at least, but is not limited to, twelve months from the date of these financial statements. This includes confirmation that they will not seek repayment of the amounts owing to them as shown in notes 14 and 15 until such time as the Company is able to meet these liabilities and will continue to guarantee the Company's borrowings as shown in note 16. On this basis the financial statements have been prepared under the going concern assumption.

Investment in subsidiary undertakings

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the directors to consider whether there has been an indication of potential impairment at the reporting date, and no impairment has been recognised in the current year.

Tangible fixed assets and depreciation

Tangible fixed assets are held at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation has been calculated to write down the cost or valuation, less estimated residual value, of tangible fixed assets over their expected useful lives at the following rates:

Freehold property	25 - 50 years in equal annual instalments to an estimated residual value
Fixtures, fittings and equipment	3 - 10 years in equal annual instalments
Tractors	5 - 8 years in equal annual instalments
Motor vehicles	4 years in equal annual instalments

Freehold land and assets in the course of construction are not depreciated.

Costs of ongoing capital projects are held as assets under construction in the balance sheet and are transferred to the appropriate fixed asset categories upon completion.

Intangible assets

The costs associated with the acquisition of players' registrations are capitalised as intangible assets. Costs include transfer fees, levy fees, agents fees and other directly attributable costs. These costs are amortised from the month of purchase fully over the contract period.

Where a playing contract is extended, any costs associated with securing the extension are added to the unamortised balance (at the date of amendment) and the revised book value is amortised over the remaining revised contract life.

Where a part of the consideration payable on acquiring a player's registration is contingent on a future event, this amount is recognised once it is probable, rather than possible, that the event will occur.

Players' registrations are written down for impairment when the carrying amount exceeds the amount recoverable through use or sale.

The Sunderland Association Football Club Limited

Statement of accounting policies (continued)

Lease rentals

Operating lease rentals are charged to the statement of comprehensive income on a straight line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and estimated selling price less cost to complete and sell and consist of wet and dry goods. Inventories are recognised as an expense in the period in which the related revenue is recognised.

Cost includes all direct costs attributable to bringing the inventory to its present location and condition.

Where necessary, provision is made for slow moving inventory.

Turnover

Turnover comprises gate receipts, television and media, sponsorship and royalties, conference banqueting and catering, retail and merchandising and invoiced sales, exclusive of value added tax. Television and media income is recognised in equal instalments during the season and gate receipt income is taken to the statement of comprehensive income when the matches are played. Sponsorship and royalties income is recognised over the life of the relevant agreements, catering and retail income is recognised upon sale of the goods.

Accrued income

Income from match day activities, media and commercial contracts, which is invoiced after the period to which it relates, is treated as accrued income.

Deferred income

Income from match day activities, media and commercial contracts which has been invoiced prior to the period end in respect of future football seasons, is treated as deferred income.

Signing on fees

Contractual amounts of fees payable to players are spread evenly over the term of the contract. In accordance with guidance from an FA Premier League working party, unamortised signing on fees are disclosed net of amounts due to players in the balance sheet. The net balance of signing on fees relating to players sold is included within the calculation of the profit or loss on disposal of players' contracts.

Pensions

Previously employed staff of the Company are members of either the Football League Limited Players Retirement Income Scheme, a defined contribution scheme, or the Football League Pension and Life Assurance Scheme, a defined benefit scheme. The Company also contributes to individuals private pension schemes.

Pension costs relating to defined benefit schemes are charged to the profit and loss account as if they were defined contribution pension costs. This is due to the Company being unable to identify its share of the assets and liabilities of the schemes, which are held separately in administered funds.

Pension costs relating to defined contribution schemes are charged to the profit and loss account in the year to which they relate.

The Sunderland Association Football Club Limited

Statement of accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not recognised on revalued tangible fixed assets unless there is a binding agreement to sell them. Deferred tax is measured on an undiscounted basis.

Grants receivable

Grants received as a contribution towards specific expenditure on fixed assets are held in a deferred income account and recognised in the profit and loss account over the expected useful lives of the related assets. Other grants received are held in a deferred income account and recognised in the profit and loss account so as to match them with the expenditure to which they are intended to contribute.

Foreign currency

Monetary assets and liabilities in foreign currencies are translated to sterling at rates of exchange ruling at the date of the balance sheet or at agreed contracted rates. Transactions in foreign currency are translated to sterling at the rate ruling at the date of the transaction. All differences on exchange are taken to the profit and loss account in the period in which they arise.

Related party transactions

The company has taken advantage of the exemption under paragraph 33.1A from the provisions of FRS 102 on the grounds that at 31 July 2016 it was a wholly owned subsidiary.

Financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including other receivables and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction which is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the assets' original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

The Sunderland Association Football Club Limited

Statement of accounting policies (continued)

Financial instruments (continued)

Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (i) the contractual rights to the cash flows from the asset expire or are settled, or (ii) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (iii) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables and loans from fellow group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

The Sunderland Association Football Club Limited

Statement of accounting policies (continued)

Judgements in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the entity's accounting policies

There are no critical judgements in applying the entity's accounting policies.

(b) Critical accounting estimates and assumptions

(i) Impairment of intangible assets

The Company considers whether intangible assets are impaired on a regular basis throughout the year. Where an indication of impairment is identified the estimation of recoverable value requires estimate of future cash flows.

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016

1 Turnover

Turnover, which is all derived from the Company's principal activity, is analysed as follows:

	2016	2015
	£'000	£'000
Gate receipts	10,417	10,776
Television and media	71,586	69,071
Sponsorship and royalties	9,376	10,229
Conference, banqueting and catering	6,375	5,175
Retail and merchandising	3,823	791
Other	2,495	965
	104,072	97,007

All sales are within the United Kingdom.

2 Net operating expenses

	2016	2016	2015	2015
	£'000	£'000	£'000	£'000
Staff costs (note 6)		(81,753)		(75,158)
Depreciation	(986)		(1,032)	
Amortisation of players' contracts	(30,203)		(24,389)	
Players Contracts – permanent diminution in value	(1,247)		-	
Depreciation and other amounts written off tangible and intangible fixed assets		(32,436)		(25,421)
Other operating charges		(18,667)		(19,559)
Net operating expenses		(132,856)		(120,138)
Loss on ordinary activities before taxation is stated after charging:				
Auditors' remuneration:				
Fees payable for the audit of the Company's financial statements		28		28
Operating lease charges		249		236

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

3 Accounting for players' contracts

	2016	2015
	£'000	£'000
Amortisation of players' contracts	30,203	24,389
Permanent diminution in value	1,247	-
Profit on disposal of players' contracts	(5,050)	(3,867)
	26,400	20,522

4 Interest receivable and similar income

	2016	2015
	£'000	£'000
Bank deposits	6	8

5 Interest payable and similar charges

	2016	2015
	£'000	£'000
Bank loans and other borrowings	6,899	5,940
Inter-company (note 24)	1,227	1,131
	8,126	7,071

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

6 Employees

The average monthly number of persons employed by the Company including directors during the year was: follows:

	2016	2015
	Number	Number
Full time players and playing related staff	124	124
Full time administration	134	134
Part Time	89	101
	347	359

In addition the Company employed an average of 233 matchday staff (2015: 254)

Staff costs including directors' remuneration during the year amounted to:

	2016	2015
	£'000	£'000
Wages and salaries	72,415	66,227
Social security costs	9,059	8,670
Other pension costs (note 20)	279	261
	81,753	75,158

7 Directors' emoluments

Aggregate directors' emoluments during the year, for services to The Sunderland Association Football Club Limited totalled £1,812,619 (2015: £1,195,377), including pension contributions of £70,035 (2015: £79,000) accruing to 4 directors (2015: 3). The pension contributions are company contributions to money purchase pension schemes that are the directors' personal pension plans, they are not company schemes. The emoluments of the highest paid director amounted to £1,207,770 (2015: £725,563) including £31,868 (2015: £53,000) of pension contributions, of which £850,000 (2015: nil) related to compensation for loss of office.

The Sunderland Association Football Club Limited

8 Tax on loss on ordinary activities

(a) Analysis of tax charge on ordinary activities

	2016	2015
	£'000	£'000
Current tax	-	-
Deferred tax	-	-
Tax on loss on ordinary activities	-	-

(b) Factors affecting tax charge for the year

The tax assessed for the year differs (2015: differs) from the standard rate of corporation tax in the UK for the year ended 31 July 2016 of 20.00% (2015: 20.67%). The differences are explained below.

	2016	2015
	£'000	£'000
Loss on ordinary activities before taxation	(33,785)	(26,677)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015: 20.67%)	(6,757)	(5,514)
Effects of:		
Expenses not deductible for tax purposes	19	3
Accelerated capital allowances and other timing differences	-	214
Other short term timing differences	-	(27)
Tax losses not recognised	6,338	4,955
Group relief not paid for	400	369
Tax charge for the year	-	-

(c) Factors that may affect future tax charges

The Company has unprovided trading losses of approximately £183.3 million (2015: £134.7 million) which are available for offset against future trading profits. A deferred tax asset has not been recognised in respect of these losses on the basis that they may only be offset against future taxable profits generated by the Company. There is currently insufficient evidence that any asset would be recoverable.

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

9 Intangible assets

Transfer fees paid for players' contracts

	£'000
Cost	
At 1 August 2015	123,479
Additions	30,742
Disposals	(32,791)
At 31 July 2016	121,430
Accumulated amortisation	
At 1 August 2015	63,219
Charged for the year – amortisation	30,203
Permanent diminution in value	1,247
Disposals	(26,150)
At 31 July 2016	68,519
Net book amount	
At 31 July 2016	52,911
At 31 July 2015	60,260

Amortisation of intangible assets is included within net operating expenses in the statement of comprehensive income.

During the year players' contracts of £1,247,000 were impaired. The carrying value of the players' contracts exceeded the recoverable value.

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

10 Investments

	Other investments £'000
Cost and net book value at 31 July 2015	20,000
Foreign exchange translation adjustment	3,387
Cost and net book value at 31 July 2016	23,387

Other investments represent cash amounts held as security in relation to the revolving credit facility with Security Benefit Corporation. These amounts are held for the period of the facility and are therefore treated as long term in nature.

The subsidiaries held throughout the year are:

Name of subsidiary	% ownership of ordinary shares	Country of incorporation	Principal activity
SAFC.COM PLC	100	England and Wales	Dormant
Sunderland AFC.COM Limited	100	England and Wales	Dormant
1879 Events Management Limited	100	England and Wales	Events management services
Sunderland Association Football Club Ladies Limited	100	England and Wales	Professional football club

Sunderland AFC.COM Limited is a wholly owned subsidiary of SAFC.COM PLC.

The address of the registered office of all of the above subsidiaries is The Sunderland Stadium of Light, Sunderland, Tyne & Wear, SR5 1SU.

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

11 Tangible assets

	Freehold land and buildings	Fixtures, fittings, equipment and vehicles	Assets under construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 August 2015	14,603	16,278	622	31,503
Additions	-	577	102	679
Disposals	-	-	-	-
Transfers	-	619	(619)	-
At 31 July 2016	14,603	17,474	105	32,182
Accumulated depreciation				
At 1 August 2015	2,217	14,178	-	16,395
Disposals	-	-	-	-
Charge for the year	-	986	-	986
At 31 July 2016	2,217	15,164	-	17,381
Net book amount				
At 31 July 2016	12,386	2,310	105	14,801
At 31 July 2015	12,386	2,100	622	15,108

On an historical cost basis, freehold land and buildings would have been included at a net book amount of £8,297,000 (2015: £8,496,000).

Assets under construction relate to work on the Academy of Light development.

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

12 Inventories

Group

	2016	2015
	£'000	£'000
Goods for resale	1,419	556

Inventories are measured at the lower of cost and estimated selling price less cost to complete and sell. There is no significant difference between the replacement cost of the inventory and its carrying amount.

The amount of inventories recognised as an expense during the year was £1,930,000 (2015: 350,000).
Impairment of inventory recognised as an expense during the year was £nil (2015: £nil).

13 Debtors

	2016	2015
	£'000	£'000
Trade debtors	11,853	7,808
Amount owed by group undertakings	3,560	5,560
Other debtors	4,255	5,149
Prepayments and accrued income	2,229	2,157
	21,897	20,674

Trade debtors include transfer fees receivable from other football clubs of £9,010,000 (2015: £5,694,000) of which £1,393,000 (2015: £2,309,000) is receivable after more than one year.

Trade debtors are stated after provisions for impairment of £167,000 (2015: £151,000).

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Amounts owed by group undertakings are stated after provisions for impairment of £925,000 (2015: £nil).

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

14 Creditors: amounts falling due within one year

	2016	2015
	£'000	£'000
Bank loans and overdraft	-	15,000
Trade creditors	22,039	12,557
Amounts owed to group undertakings	53,747	38,247
Other creditors	61	181
Taxation and social security	12,982	4,402
Accruals and deferred income	57,408	23,665
	146,237	94,052

Trade creditors include transfer fees and other associated costs in relation to the acquisition of players' registrations of £19,298,000 (2015: £10,486,000).

Amounts owed to group undertaking include unsecured, interest free loans repayable to Drumaville Limited, the immediate parent undertaking of Sunderland Limited.

15 Creditors: amounts falling due after more than one year

	2016	2015
	£'000	£'000
Bank loans and overdrafts	67,904	68,016
Trade creditors	16,028	12,771
Amounts owed to group undertakings	15,658	14,432
Accruals and deferred income	1,866	2,154
	101,456	97,373

Trade creditors include transfer fees and other associated costs in relation to the acquisition of players' registrations of £16,027,000 (2015: £12,771,000).

Amounts owed to group undertaking include unsecured, interest free loans repayable to Drumaville Limited, the immediate parent undertaking of Sunderland Limited. The carrying value of these loans has been adjusted to reflect the fair value of the interest that would be payable were the company to borrow the funds from a third party.

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

16 Loans and other borrowings

	2016	2015
	£'000	£'000
Revolving credit facility	-	15,000
Loans due to third party	67,904	68,016
Amounts due to group undertakings	69,405	52,679
	137,309	135,695

Loan repayments fall due as follows:

	2016	2015
	£'000	£'000
Within one year	53,747	53,247
Between one and two years	-	-
Between two and five years	83,562	82,448
	137,309	135,695

Gross debt and issue costs

	2016		
	£'000		
	Gross loans and borrowings	Issue costs	Net loans and borrowings
Revolving credit facility	-	-	-
Loans due to third party	70,000	(2,096)	67,904
Amounts due to parent undertaking	69,405	-	69,405
	139,405	(2,096)	137,309

On 27 August 2014 the Company received loan financing of £70m from Security Benefit Corporation (SBC). This financing is a long term loan expiring on 27 August 2019 and carries an interest rate of 7.5% plus LIBOR (which if lower is deemed to be 1%) per annum.

The long term facility is secured upon the Stadium of Light, the Academy of Light and other freehold property held within the Sunderland Limited Group.

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

16 Loans and other borrowings (continued)

In addition to this long term loan, a £15m revolving credit facility was also taken up with SBC. This revolving credit facility was secured upon an initial collateral investment of £20m and carries an interest rate of 7.5% plus LIBOR (which if lower is deemed to be 1%) per annum. Loan arrangement fees totalling £2,460,033 were payable upon organisation of the loan facility. These are being amortised over the life of the loan.

The terms of the new loan include warrants which entitle the lender to purchase a minority interest in the ordinary share capital of the Company. The directors' assess the fair value of the warrants annually and deem the fair value to be £nil (2015: £nil).

17 Financial instruments

The Company has the following financial instruments:

	2016	2015
	£'000	£'000
Carrying amount of financial assets		
Debt instruments measured at amortised cost	43,055	38,517
Carrying amount of financial liabilities		
Measured at amortised cost	(188,666)	(176,429)

18 Called up share capital and other reserves

		2016		2015
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of £1 each	30,503	30	30,503	30
Allotted and fully paid				
Ordinary shares of £1 each	30,503	30	30,503	30

Other reserves

Other reserves include a capital contribution reserve arising from the fair value of the amounts due to parent undertakings.

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

19 Financial commitments

Operating leases on plant and machinery

Annual commitments on non-cancellable operating leases which expire in:

	2016	2015
	£'000	£'000
Under one year	146	172
Between one and five years	301	224
After more than five years	384	472
	831	868

20 Pension commitments

The Company participates in the Football League Pension and Life Assurance Scheme ('the Scheme'). The Scheme is a funded multi-employer defined benefit scheme, with 92 participating employers, and where members may have periods of service attributable to several participating employers. The Company is unable to identify its share of the assets and liabilities of the Scheme and therefore accounts for its contributions as if they were paid to a defined contribution scheme.

The last actuarial valuation was carried out at 31 August 2014 where the total deficit on the on-going valuation basis was £21.8 million. The key assumptions used to calculate the deficit at the 31 August 2014 actuarial valuation are:

Discount rate	5.4% p.a. for the 1st 7 years, 4.4% p.a. for the following 10 years and 3.4% per annum thereafter.
RPI inflation	3.2 % p.a.
Pension increases	3.0% p.a. for benefits accrued prior to 6 April 1997, and 3.7% p.a. for benefits accrued after 6 April 1997.
Mortality (pre-retirement)	None
Mortality (post-retirement)	SAPS CMI_2013 2.0%

The accrual of benefits ceased within the Scheme on 31 August 1999, therefore there are no contributions relating to current accrual. The Company pays monthly contributions based on a notional split of the total expenses and deficit contributions of the Scheme.

The results of the 2014 valuation were rolled forward to 31 July 2016 on the same assumptions as detailed above, and the Company's notional share of the deficit was £122,220 (£155,135 as at 31 July 2015).

The Company currently pays total contributions of £44,424 per annum and based on the actuarial valuation assumptions detailed above will be sufficient to pay off the deficit by 28 February 2020.

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

20 Pension commitments (continued)

As at 31 July 2016, based on an appropriate discount rate of 0.93% per annum (1.98% per annum as at 31 July 2015), the present value of the Company's outstanding contributions (i.e. their future liability) is £152,991 (£191,342 as at 31 July 2015).

Present Value of Defined Benefit Obligation

	2016	2015
	£'000	£'000
Present Value of Defined Benefit Obligation	153	191

Reconciliation of Defined Benefit Obligation

	2016
	£'000
Defined Benefit Obligation at start of year	191
Net Interest Charge (Unwinding of discount rate)	4
Club contribution (deficit contribution)	(44)
Remeasurement (changes in assumptions)	2
Remeasurement (change to contribution schedule)	-
Defined Benefit Obligation at end of year	153

Income and Expenditure Impact

	2016
	£'000
Net Interest Charge (Unwinding of discount rate)	4
Remeasurement (changes in assumptions)	2
Remeasurement (change to contribution schedule)	-

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

20 Pension commitments (continued)

Assumptions

	2016	2015
Discount Rate (based on AA Corporate Bond Yields of appropriate currency/duration)	0.93%	1.98%

The funding objective of the Trustees of the Scheme is to have sufficient assets to meet the Technical Provisions of the Scheme. In order to remove the deficit revealed at the previous actuarial valuation (dated 31 August 2014), deficit contributions are payable by all participating clubs. Payments are made in accordance with a pension contribution schedule. As the Scheme is closed to accrual, there are no additional costs associated with the accruing of members' future benefits. In the case of a club being relegated from the Football League and being unable to settle its debt then the remaining clubs may, in exceptional circumstances, have to share the deficit.

Upon the wind-up of the Scheme with a surplus, any surplus will be used to augment benefits. Under the more likely scenario of there being a deficit, this will be split amongst the clubs in line with their contribution schedule. Should an individual club leave the Scheme, they may be required to pay their share of the deficit based on a proxy buyout basis (i.e. valuing the benefits on a basis consistent with buying out the benefits with an insurance company).

21 Contingent liabilities

(a) Transfer fees payable

Under the terms of certain contracts for the purchase of players' registrations, future payments may be due to third parties, dependent on the success of the team and/or individual players. At the balance sheet date, the maximum contingent liability, none of which was provided for in these financial statements, was £15,801,700 (2015: £12,167,000), some of which are extremely remote.

Any additional fees which may become payable or receivable under these agreements will be accounted for in the year that it becomes probable that the event will occur.

(b) Legal cases – Alvarez Player Claim

Depending on the outcome of certain legal cases the Company may be required to make payments of £9,606,000 (2015: £7,577,000) to third parties. The Company's legal counsel have estimated that the outcome is not more likely than not to be found against the Company and hence no provision has been made for these payments.

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

22 Related party transactions

See note 7 for disclosure of the directors' remuneration and key management compensation.

The Foundation of Light (was Sunderland AFC Foundation)

The Foundation of Light is the registered charity of the Club. It was established in 2001.

E Short, director of the Company during the year, is also Trustee of The Foundation of Light.

M Byrne, director of the Company during the year, was also Company Secretary of The Foundation of Light.

A Lowes, director of the Company during the year, is also Finance director of The Foundation of Light.

At 31 July 2016 the balance owing from The Foundation of Light to the Company was £63,891 (2015: £18,510).

During the year, the Club provided many services to The Foundation of Light free of charge, including staff time and use of the facilities. It is estimated that the gift in kind during the year is £625,498 (2015: £677,182).

The Club invoiced The Foundation of Light during the financial year for various charges including a contribution towards the Centre of Light running costs totalling £33,606 (2015: £33,660). The Foundation of Light raised invoices to the Club to the value of £168,269 (2015: £122,985) during the financial year for contribution towards running costs of football development and donations.

Kitano Capital LLC

P M Andersson, director of the Company during the year, is also President of Kitano Capital LLC.

During the year, Kitano Capital LLC raised invoices to the Club for P M Andersson's time and travel totalling £109,198 (2015: £81,325).

The Company is exempt from disclosing other related party transactions as they are with other companies that are wholly owned within the Group. The consolidated financial statements of Sunderland Limited, in which the Company is included, are publicly available at the address noted on page 1 of the report.

23 Ultimate and immediate controlling party

The immediate parent undertaking is Sunderland Limited, a company incorporated in England. Sunderland Limited is the smallest and largest company to consolidate the results of the Company. The directors consider the ultimate controlling party of the Company to be Mr E Short.

The Sunderland Association Football Club Limited

Notes to the financial statements for the year ended 31 July 2016 (continued)

24 Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under the UK GAAP were for the year ended 31 July 2015. The date of transition to FRS 102 was 1 August 2014. Set out below are the changes in accounting policies which reconcile loss for the financial year ended 31 July 2015 and the total equity as at 1 August 2014 and 31 July 2015 between UK GAAP as previously reported and FRS 102.

Transition exemptions

The Company has taken the following transition exemptions in preparing its first financial statements under FRS 102.

- (i) The Company have taken advantage of the transition exemption under paragraph 35.10(a) of FRS 102 not to apply Section 19 Business Combinations and Goodwill to business combinations that were effected before the date of transition to FRS 102. No adjustment has been made to the carrying value of goodwill and intangible assets.
- (ii) The Company has taken advantage of the exemption under paragraph 35.10(f) of FRS 102 to measure investments in subsidiaries, associates and jointly controlled entities in its separate opening balance sheet at cost.

Reconciliation of profit for the financial year

	Note	30 July 2015 £'000
Loss for the year as previously reported under UK GAAP		(25,546)
Adjustment on transition	a)	(1,131)
Profit for the financial year as reported under FRS 102		(26,677)

Reconciliation of equity

	Note	1 August 2014 £'000	31 July 2015 £'000
Total shareholders' deficit as previously reported under UK GAAP		(52,733)	(78,279)
Adjustment on transition	a)	-	5,568
Total shareholders' funds as reported under FRS 102		815,021	(72,711)

Notes to reconciliation

- a) Amounts owed to group undertaking include unsecured, interest free loans repayable to Drumaville Limited, the immediate parent undertaking of Sunderland Limited. The face value of these loans is £20,000,000. These loans have been fair valued at inception, and initially recognised at £13,301,000. Interest expense is recognised on these loans at a market rate of interest, and interest expense of £1,131,000 has been recognised in the year ended 31 July 2015. Additionally, a capital contribution reserve has been recognised within other reserves of £6,699,000.