About the author of this article

Ant Thomas is a life-long Shrewsbury Town fan and director at accountancy firm Grant Thornton.

Review of the financial statements of Shrewsbury Town Football Club Limited for the year ended 30 June 2018

The review below has been performed with the goal of making the content of the most recently available set of accounts for Shrewsbury Town Football Club Limited understandable for all Salop fans – whether you have any sort of an accounting background or whether the words 'profit and loss' mean nothing to you whatsoever!

There are a few key things to remember before you start reading:

- These accounts cover the year from 1st July 2017 to 30th June 2018 i.e. the 2017/18 season, where STFC competed in League One.
- Private companies are required to prepare accounts and submit them to Companies House within 9 months of the year-end – for STFC this deadline is therefore 31st March 2019.
- This means that the period since 30th June 2018 to now is not covered as part of this review as this information is not yet publicly available.
- These accounts will be publicly available once filed and anyone else could obtain them from Companies House.
- I have not made any assumptions, judgements or estimates unless explicitly stated. This is important because it means that anyone else could reach the same conclusions as I have from reading these accounts.
- This is not an exhaustive review but I have highlighted the key points from the accounts.
- These accounts are audited by Shrewsbury based accountancy firm Whittingham Riddell LLP. An audit is effectively a check on the accounts to make sure they are free from 'material' error i.e. that they do not contain any significant errors which would change the views of those reading them.

If you don't want to read all of the detail below the headlines are as follows:

- The club made a profit in the year of £341k – compared to a £409k profit in the previous year. Overall the movement is due to
    - An increase in turnover of c. £1.9m
    - Offset by an increase in costs of c. £0.9m and a decrease in other operating income of c. £1.0m
- The club continues to have no debt and held around £2.9m cash in the bank at 30 June 2018 (June 2017 – £1.1m).
- The directors did not take a salary or dividend payments from the club consistent with prior years.
- The club was in a positive net assets position at 30th June 2018 of £14.2m – that is to say it had £14.2m more assets than liabilities at that date (June 2017 - £13.9m).

If anyone has any questions/ comments please feel free to drop me an e-mail to ant.d.thomas83@gmail.com

The profit and loss ("P&L") account – also known as the "Statement of Comprehensive Income"
This is the first key financial statement shown in the accounts.

The profit and loss account shows the "financial performance" of a company – that is:

1) all of the revenue/ income the club has earnt in the year e.g. ticket sales, player sales, prize money less,
2) all of the costs it has incurred.

Where the income is higher than the costs, this is called a profit. Where the opposite is true this is called a loss.

Note that an increase in profit of say £100 does not mean the same thing as an increase in cash of £100. This is because of the way accountancy works and some costs do not have an impact on the cash you have in the bank.

Each element of this statement is discussed below.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 £	*2017 £*
Turnover	4	**6,580,446**	*4,715,042*
Cost of sales		**(5,168,181)**	*(4,484,488)*
Gross profit		**1,412,265**	*230,554*
Administrative expenses		**(1,074,351)**	*(811,358)*
Other operating income	5	**-**	*987,884*
Operating profit		**337,914**	*407,080*
Interest receivable and similar income	8	**2,964**	*2,214*
Profit before tax		**340,878**	*409,294*
Profit for the financial year		**340,878**	*409,294*

Turnover: This is the income the club has earned in the year. For a football club this will relate to ticket sales, merchandise sales, prize money, TV money etc. The club are not required to show a more detailed split of this number so it is not possible to see exactly what the reason for the increase is.

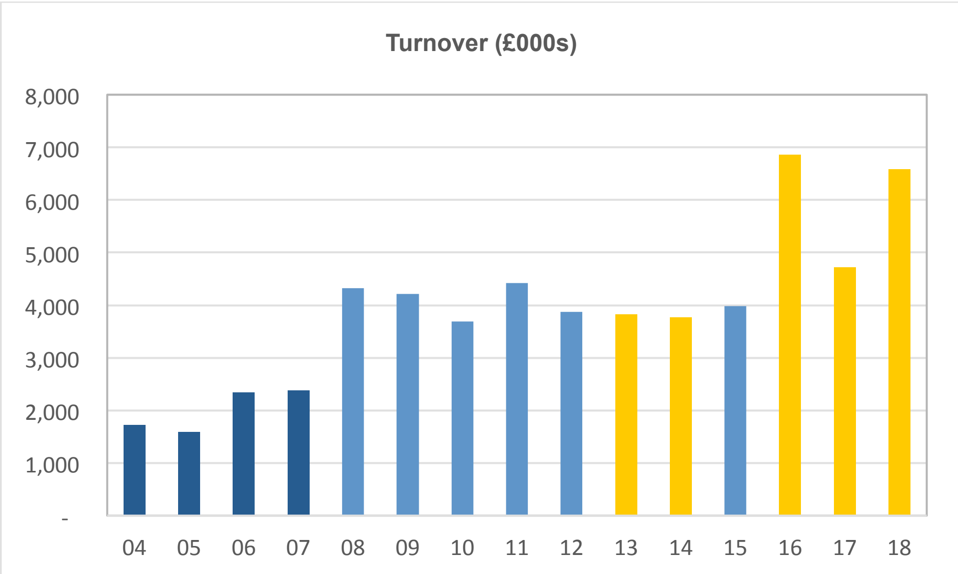
We do know that in the 2017/18 season attendances were higher and there were more home matches (owing to an extra play-off game, and run in the Football League Trophy).

Note that any player sales or purchases that occurred after 30th June 2018 will not be recognised in these accounts.

Below shows turnover for the club over the past 15 seasons – what's clear is that it can fluctuate significantly year on year due to league performance (and therefore impact on attendances), cup runs and player sales.

In many ways it means it is much harder for a football club to predict what levels of turnover it will achieve compared to businesses in other industries. As a result knowing how much to budget for transfer fees to be paid or how much to spend on player wages will also be difficult. *(This is largely the case for football clubs* ***outside*** *of the Premier League. For those competing in the top division, income from match tickets and player sales tends not to be as significant, owing to the astronomical payments made for TV rights etc. As an example – consider West Brom – who finished rock bottom of the Premier League last season, yet received £94m – yes you read that right – just for being in the Premier League that year).*

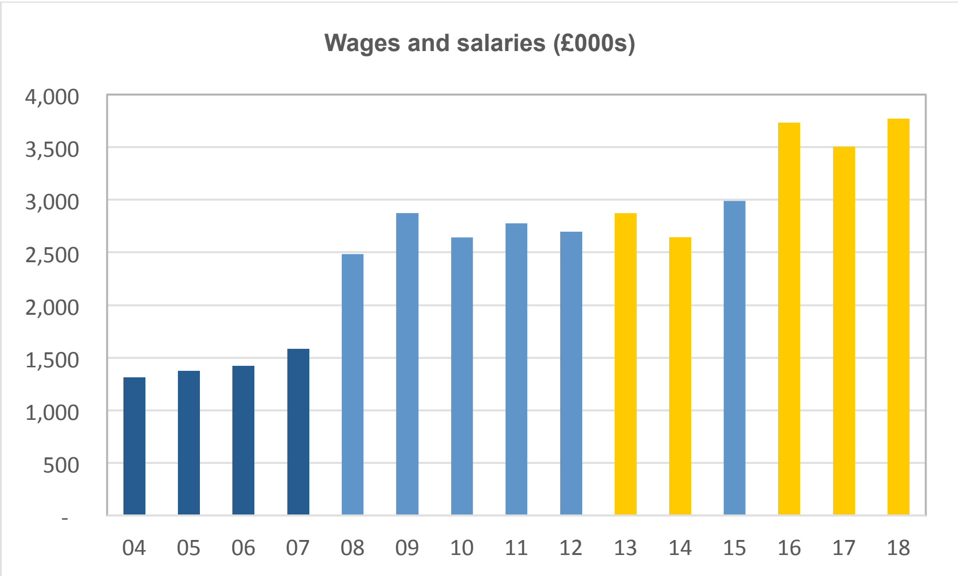
The bars in dark blue represent our final seasons at Gay Meadow, and at the New Stadium bars in medium blue represent seasons in League Two and in amber represent those in League One.



Cost of sales: This is the first cost we see in the P&L account and it is the cost required to deliver the services provided for a company. For example – for a company that sells cars, their turnover is the amount received per car, and the cost of sale is the cost to manufacture that car. For a football club the key cost of sale is salaries.

The accounts give details on salaries – this covers all club staff including players. The amount spent on salaries in the 2017/18 season was £3.8m, around 10% higher than in the 2016/17 season. Note that this will include bonuses due to players and it is a fair estimate that these will be higher for a season where we finished in the top three in the division vs. the bottom half.

The below graph shows the level of wages incurred by the club in the past 15 seasons. It demonstrates how they can fluctuate year on year, but also how the club's playing budget has increased significantly since the move from Gay Meadow.



Administrative expenses: These are other costs of the club and are likely to include utilities (such as water, electricity etc.) and repairs/ maintenance needed on the stadium. These costs have increased year on year by c. £250k albeit it is not clear from the accounts the reason for the increase.

Other operating income: The profit and loss account in the prior year included £1.0m of "other operating income". When businesses receive income for non-core activities (i.e. stuff they don't do day to day) it's shown in a separate line in the profit and loss account.

This related to the sale of two acres of land. There was no similar transaction in the 2017/18 season.

Tax: The club didn't incur a corporation tax charge in the year. Whilst there is no information in the accounts to state why this is, a company is allowed to offset any tax payable against losses it incurred in previous years, thus reducing the charge, hence the losses made in the previous year may explain why the tax charge is nil in the current year.

Other things to note: The club made no salary or dividend payments to directors or the chairman. This is consistent with the prior year. This means the chairman/ directors did not charge anything to the club for their work at the club during the year nor did they take any other cash out of the club.

Note that it is a requirement of the Companies Act to include in the accounts any amounts paid to directors in terms of salaries/ dividends etc.

The Balance Sheet

This shows the "financial position" of a company and is shown for the year-end date only – in this case at 30th June 2018. It shows how many "assets" a company has, and how many "liabilities" – each of these is discussed in more detail below.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note		2018 £		2017 £
Fixed assets					
Intangible assets	9		**206,023**		*19,190*
Tangible assets	10		**12,094,684**		*11,882,494*
Investments	11		**1**		*1*
			12,300,708		*11,901,685*
Current assets					
Stocks	12	**57,122**		*81,669*	
Debtors: amounts falling due within one year	13	**862,528**		*2,667,785*	
Cash at bank and in hand	14	**2,887,279**		*1,059,680*	
		3,806,929		*3,809,134*	
Creditors: amounts falling due within one year	15	**(1,899,298)**		*(1,843,358)*	
Net current assets			**1,907,631**		*1,965,776*
Total assets less current liabilities			**14,208,339**		*13,867,461*
Net assets			**14,208,339**		*13,867,461*
Capital and reserves					
Called up share capital	17		**2,526,283**		*2,526,283*
Profit and loss account	18		**11,682,056**		*11,341,178*
			14,208,339		*13,867,461*

Assets

An asset is a resource owned by a company which has some economic benefit to the company – either in the short term of the longer-term. Each sub-category is discussed below. The most obvious asset for any business is cash – the "economic benefit" being that it can be used to buy other assets, or pay bills etc.

Fixed assets - tangible

These are assets that are used by the company to generate economic benefit/ are used in the running of the business. Tangible means they physically exist. For STFC these mostly relate to the stadium.

The balance has increased by c. £0.2m in the year. This is due to new assets of £249k, offset by a small number of disposed assets and depreciation in the year.

Fixed assets – intangible

Intangible assets are ones that can't be physically held like a tangible asset can. For some businesses this may mean an online platform which will result in revenue for the business going forward.

For football clubs these primarily relate to players' contracts when a transfer fee is paid. This asset is then reduced each year of the contract. This reduction is called "amortisation" in accounting terms and is recorded as an expense to the business and is included in the P&L account.

The intangibles balance has increased by £0.2m. This is a combination of new fees paid of £0.3m, offset by an amortisation charge of £0.1m.

It is worth noting that transfer fees paid or received after 30 June 2018 (i.e. pre-season for the 2018/19 season would not be included in this set of accounts).

Current assets

These are called "current" because they are easier/ quicker to turn into cash than fixed assets. Each sub-section is discussed below.

Stocks

Stocks are either club-shop merchandise or items used by the club in its day to day running (e.g. food). There has not been a significant change in this balance year on year.

Debtors

These are amounts owed to a company by other companies or individual. For a football club they can relate to amounts owed by other football clubs (e.g. for transfer fees), from other organisations (e.g. the FA) or "prepayments" – this is where a company pays for a future service in advance. For example, if you paid for the whole of next year's insurance now for £300, you would have a £300 prepayment – as that is not a cost that relates to your current year hence doesn't impact the P&L for this year.

Debtors have decreased from £2.7m to £0.9m although it is not possible to see exactly what the increase relates to from the accounts.

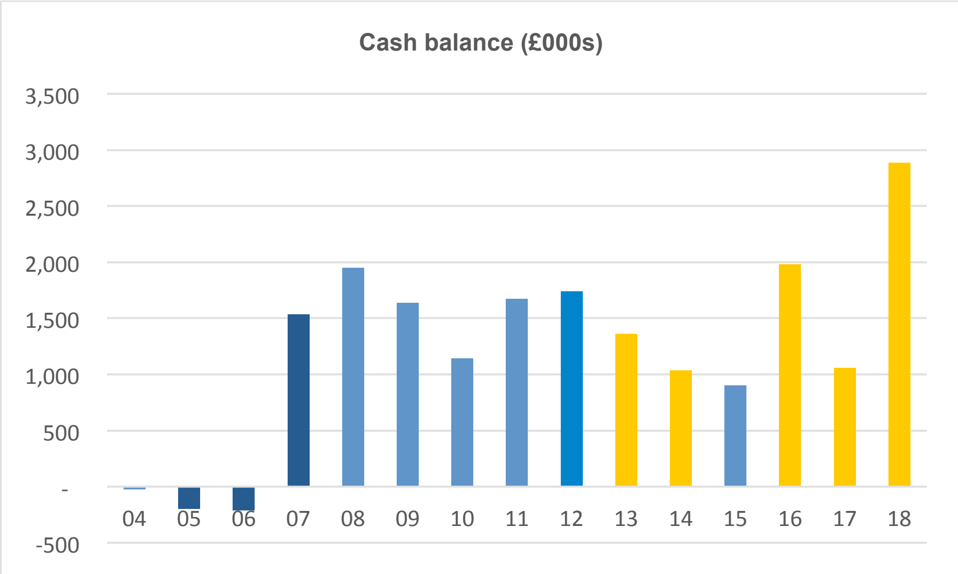
Cash

This is just what is sounds like – what's in the club's bank account. Ever heard of the expression "cash is king"? It's because without it a business can't operate – because it wouldn't be able to pay its staff or suppliers. For a football club who is so reliant on its staff, it is therefore vital to ensure you have a means to pay salaries and other costs.

The cash balance has increased from c. £1.1m to £2.9m. This movement can occur for a number of reasons. For example if a business is owed a significant amount from a transaction this amount will be shown with "Debtors" and not cash - it can make its cash balance look temporarily lower until that money is received. So as we have seen a drop in debtors by c. £1.8m this is likely to have resulted in an increase in cash for the club.

It is important to note that the club has no debt – consistent with the prior year. This remains unusual for a professional football club and reflects positively on the club in terms of its financial position when compared to other football clubs, or in fact many businesses in any industry.

Looking back over the last 15 seasons shows again how the cash balance can fluctuate and how difficult it can be to estimate what the cash balance can be for the next season. It is worth noting the club has been able to retain a positive cash position since its move from the Gay Meadow.



Liabilities

A liability is an amount owed by a company which will lead to the outflow of economic benefits – for example a payment in cash for a debt owed – either in the short term (in the next twelve months) or long-term. Each sub-category is discussed below.

Current liabilities

This description is given to amounts the club owes to individuals or other clubs/ organisations. They are called "current" because they are repayable in the short-term/ on demand. The key items for STFC are:

- *Payments received on account (largely season tickets paid for in advance):* When you buy a season ticket for next season, and pay for it in advance, the club cannot recognise it as "turnover" until the season in which it relates to. So advanced season ticket sales for the 18/19 season are not included in the turnover figure in the P&L. Instead they are shown as a current liability. Why? Because theoretically the club have not provided the service to the customer yet (giving them access to the matches) and also the customer could ask for their money back if they changed their mind. The balance increased around c. £0.1m year on year.
- *Trade creditors:* Amounts owed relating to the day to day business – this could be transfer fees, payments to suppliers to the club etc. The balance increased by c. £0.1m but it is not possible to tell why from the accounts.
- *Other current liabilities (taxation and social security, other creditors, accruals and deferred income):* This relates to items such as payroll tax, one-off bills or where

invoices have not yet been received by the club. The term "accrual" is used in the accounts. This is the opposite to a "prepayment" and it means a company have used a service but not paid for it yet. A good example would be if you pay £20 a month for broadband but pay for the current month's usage next month. This would lead to an accrual in the balance sheet of £20. The balance has decreased by around £100k year on year.

Capital and reserves

This shows:

- Capital – the amount that have been paid for the shares in the club. There has been no movement this year.
- Reserves – the amount of profits or losses made in all previous years' combined. This stands at an overall profit figure of £11.7m, up £0.4m on the prior year due to the profit made in the year.