

Review of the financial statements of Shrewsbury Town Football Club Limited for the year ended 30 June 2019

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 2018 to 30th June 2019 i.e. the 2018/19 season, where STFC competed in League One.
- This means that the period since 30th June 2019 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.

Summary

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

Please note there are a couple of significant transactions that have occurred in this set of accounts compared to previous years.

- The club made a profit in the year of £2.254m – compared to a £0.341m profit in the previous year. The increase in profit of £1.9m is due to the following movements:
 - o Other operating income of £3.8m in the year (£nil in the prior year)
 - o Offset by a decrease in turnover of £1.2m and an increase in costs of £0.7m.
- Other operating income of £3.8m relates to the “profit on sale of intangible assets”. For the club this means the profile on player sales. It should be noted that just because the sale of a player (or sell-on deal) has occurred in the year, that does not mean the club have received the cash for that deal in full yet. More detail on the accounting and cash flow implications of this is given below.
- The club continues to have no debt and held £2.7m cash in the bank at 30 June 2019 (June 2018 – £2.9m).
- 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 2019 of £17.2m – that is to say it had £17.2m more assets than liabilities at that date (June 2018 - £14.2m).

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 earned 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 2019			
	Note	2019 £	2018 £
Turnover	4	5,366,554	6,580,446
Cost of sales		(5,652,088)	(5,168,181)
Gross (loss)/profit		(285,534)	1,412,265
Administrative expenses		(1,288,644)	(1,074,351)
Other operating income	5	3,818,549	-
Operating profit	6	2,244,371	337,914
Interest receivable and similar income	8	9,300	2,964
Profit before tax		2,253,671	340,878
Profit for the financial year		2,253,671	340,878
Other comprehensive income for the year			
Unrealised surplus on revaluation of tangible fixed assets		742,770	-
Other comprehensive income for the year		742,770	-
Total comprehensive income for the year		2,996,441	340,878

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 provide a breakdown of turnover in the accounts:

	2019 £	2018 £
Ticket Sales	1,931,560	2,344,266
Football League Income	1,473,298	1,549,520
Contingent fees received	136,818	85,125
Sundry Income	1,007,046	1,646,031
Television and internet portal income	187,201	266,615
Contributions from supporter organisations	47,354	43,923
Food & beverage sales	583,277	644,966
	<u>5,366,554</u>	<u>6,580,446</u>

The most significant revenue streams for the club are ticket sales, income from the football league and sundry income (no further details are given on this last item).

Overall turnover in the year has decreased across these three major streams. It is not possible to see from the accounts any further detail for this decrease. We do that there are differences year-on-year expected due to matchday attendances, and non-league games such as the different cup competitions and the play-offs etc.

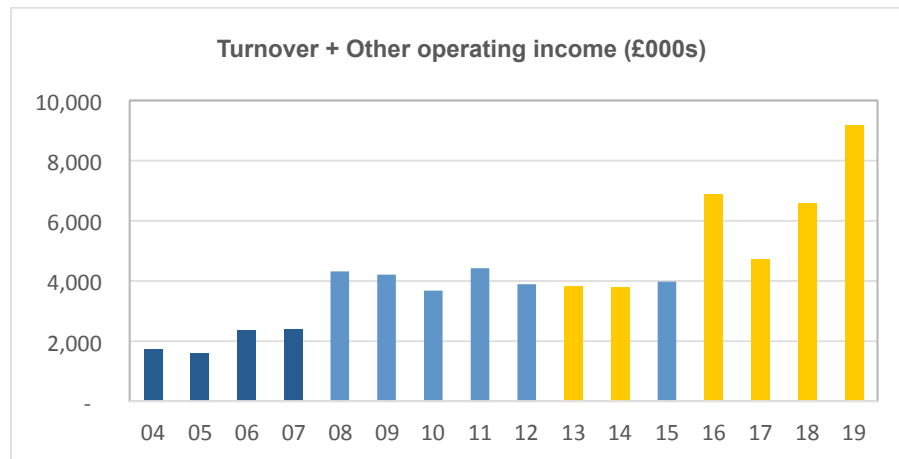
Other operating income: The profit and loss account includes £3.8m of other operating income relating to the “profit on sale of intangible assets”. In the STFC accounts, intangible assets relate largely to player transfer fees/ contracts.

Whilst the accounts don't give further detail of this we do know that during the season there were a number of player trades which impact STFC – these include the sale of Jon Nolan and Toto Nsiala to Ipswich Town and the sale of ex-Salop players Conor Goldson and Ryan Woods to Rangers and Stoke City respectively.

Accounting rules state that a club recognises all of the transfer fee income once the transfer / event is complete. So when a sell-on fee is agreed, and a sell-on occurs (e.g. Ryan Woods to Stoke), the club records the income in its profit and loss account at that date. **But** it may be that the cash from the owing club (in this case Brentford) doesn't arrive during the same financial year – it all depends on what the two clubs have agreed on.

Turnover and other operating income

The below graph shows the club's total income (turnover and other operating income) over the past 15 years.

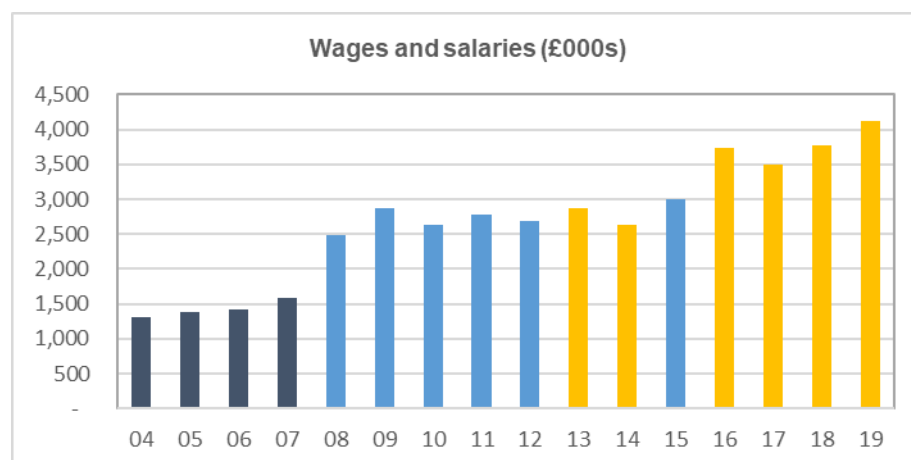


The bars in dark blue represent the years at Gay Meadow, light blue are seasons in League Two since moving to the New Meadow and in amber are seasons in League One. It demonstrates how the move to the new stadium has increased income significantly. The income for the year ended 30th June 2019 of £9.2m is higher than the years ending 30th June 2004, 2005, 2006 and 2007 added together (£8.0m).

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 2018/19 season was £4.1m, around 10% higher than in the 2017/18 season. Note that this will include bonuses and any payments for termination of players / manager's contracts.

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. £0.2m. Included in this number as well is amortisation of players' contracts which has increased by £0.2m in the year.

Tax: The club didn't incur a corporation tax charge in the year. Companies are allowed to offset any tax payable against losses incurred in previous years, thus reducing the tax charge. The accounts show that the club utilised these past losses to reduce its tax charge to £nil.

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.

Other comprehensive income: The accounts state that in the year the club took over the Powerleague bar/ changing rooms and associated pitches during the season and that they were independently valued at that date. This has resulted in an accounting entry on revaluation of £742k. This has no impact on cash.

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 2019. 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 2019			
	Note	2019 £	2018 £
Fixed assets			
Intangible assets	10	259,547	206,022
Tangible assets	11	13,107,578	12,094,684
Investments	12	1	1
		13,367,126	12,300,707
Current assets			
Stocks	13	112,738	57,122
Debtors: amounts falling due within one year	14	3,168,764	862,529
Cash at bank and in hand	15	2,708,217	2,887,279
		5,989,719	3,806,930
Creditors: amounts falling due within one year	16	(1,977,835)	(1,899,298)
		4,011,884	1,907,632
Net current assets		4,011,884	1,907,632
Total assets less current liabilities		17,379,010	14,208,339
Provisions for liabilities			
Deferred tax		(174,230)	-
		(174,230)	-
Net assets		17,204,780	14,208,339
Capital and reserves			
Called up share capital	20	2,526,283	2,526,283
Revaluation reserve	21	742,770	-
Profit and loss account	21	13,935,727	11,682,056
		17,204,780	14,208,339

Assets

An asset is a resource owned by a company which has some economic benefit to the company – either in the short term or 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. £1.0m in the year. This is largely due to the club taking over the Powerleague pitches and buildings noted above 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/ website 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. In addition the balance may also be "impaired" if there is a reason to believe the asset no longer holds value. For example if a player had one year left on their contract and suffered a career ending injury that would probably lead to the asset being impaired to £nil.

The intangibles balance has increased by £54k. This has been driven by new fees of £530k, offset by disposals of £55k, an amortisation charge of £340k, and impairment of £81k.

It is worth noting that transfer fees paid or received after 30 June 2019 (i.e. pre-season for the 2019/20 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.

	2019 £	2018 £
Trade debtors	2,658,883	376,373
Other debtors	186,697	220,117
Prepayments and accrued income	323,184	266,038
	3,168,764	862,528

Debtors have increased significantly from £0.9m to £2.7m.

Cash

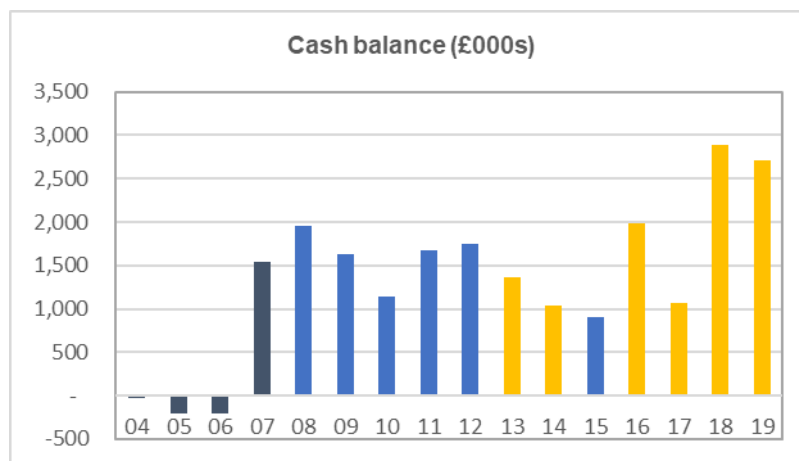
This is just what it sounds like – what's in the club's bank account. Ever heard of the expression "cash is king"? It's because without it a business can't operate – because it wouldn't be able to pay its staff or suppliers. For a football club who is so reliant on its staff, it is therefore vital to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

The cash balance has decreased marginally to £2.7m from £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 debtors balance above of over £2m, this is cash the club can expect to receive in the months after the year-end.

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:

	2019 £	2018 £
Payments received on account	530,355	543,515
Trade creditors	764,221	584,809
Other taxation and social security	179,503	187,989
Other creditors	76,545	73,454
Accruals and deferred income	427,211	509,531
	1,977,835	1,899,298

- **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 19/20 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 is very similar 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. £0.2m year on year.
- **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 £0.1m 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.
- Revaluation reserve – this is where changes in the market ("fair") value of the Powerleague pitches/ buildings is recorded.
- Reserves – the amount of profits or losses made in all previous years' combined. This stands at an overall profit figure of £13.9m, up £2.2m on the prior year due to the profit made in the year.

About the author of this article

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