

## **Review of the financial statements of Shrewsbury Town Football Club Limited for the year ended 30 June 2020**

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!

The key things to remember before you start reading:

- These accounts cover the year from 1<sup>st</sup> July 2019 to 30<sup>th</sup> June 2020 i.e., the 2019/20 season, where STFC competed in League One.
- This includes the initial period when Coronavirus hit and the season was ended early – STFC's last game being a home match against Oxford United on March 7<sup>th</sup>.
- The period after 30<sup>th</sup> June 2020 is **not** covered as part of this review, as no financial information for this period is publicly available yet.
- These accounts are publicly available via the Companies House website.
- 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 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 loss in the year of £0.7m – compared to a £2.2m profit in the previous year. The decrease in profit is largely due to:
  - o Decrease in other operating income by £3.3m to £0.5m in the year (£3.8m in the prior year).
  - o Offset by an increase in turnover of £0.1m and a decrease in costs of c. £0.3m.
- The club continues to have no debt and held £3.3m cash in the bank at 30 June 2020 (June 2019 – £2.7m).
- 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 30<sup>th</sup> June 2020 of £16.5m – that is to say it had £16.5m more assets than liabilities at that date (June 2019 - £17.2m).

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

## The "Profit and Loss ("P&L") Account" or "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) The **revenue/ income** the club has earned in the year e.g., ticket sales, player sales, prize money less;
- 2) The **costs** it has incurred in the same period.

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 (for an example of this – see the section on intangible fixed assets below).

Each element of this statement is discussed below.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020			
	Note	2020 £	2019 £
Turnover	4	5,451,472	5,366,554
Cost of sales		(5,539,144)	(5,652,088)
<b>Gross loss</b>		<b>(87,672)</b>	<b>(285,534)</b>
Administrative expenses		(1,155,557)	(1,288,644)
Other operating income	5	507,042	3,818,549
<b>Operating (loss)/profit</b>	6	<b>(736,187)</b>	<b>2,244,371</b>
Interest receivable and similar income	8	12,347	9,300
<b>(Loss)/profit before tax</b>		<b>(723,840)</b>	<b>2,253,671</b>
<b>(Loss)/profit for the financial year</b>		<b>(723,840)</b>	<b>2,253,671</b>
<b>Other comprehensive income for the year</b>			
Unrealised surplus on revaluation of tangible fixed assets		-	742,770
<b>Other comprehensive income for the year</b>		<b>-</b>	<b>742,770</b>
<b>Total comprehensive income for the year</b>		<b>(723,840)</b>	<b>2,996,441</b>

**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:

	2020 £	2019 £
Ticket sales	1,923,737	1,931,560
Football League income	1,646,271	1,473,298
Contingent fees received	109,266	136,818
Sundry income	1,003,602	1,007,046
Television and internet portal income	248,205	187,201
Contributions from supporter organisations	39,704	47,354
Food & beverage sales	480,687	583,277
	5,451,472	5,366,554

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 increased by c. £0.1m with movements across all revenue streams of less than £0.2m year on year. It is worth noting that there was an increase in income from the football league of £173k, whilst ticket sales were flat and food/ beverage sales reduced by c. £0.1m. Whilst no detail is given of the exact impact of Covid-19, it is almost certain that those last two categories were impacted given the curtailment of the season in March.

**Other operating income:** The loss in the year of £0.7m includes a gain of £0.4m owing to government grants received. Whilst not explicitly stated in the accounts this is likely to receive income from the Furlough scheme received.

Also included in this category is £0.1m relating to “profit on sale of intangible assets”. In the STFC accounts, intangible assets relate to player transfer fees/ contracts. In the prior year this balance was much higher at £3.8m and this will fluctuate year on year depending on whether the club has made any player sales or earned other income from similar sources (e.g., sell on clauses on previous player sales).

**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 and any other costs needed to be able to sell that car. For a football club the key cost of sale is salaries. These are likely to be split between cost of sales for players’ salaries and administrative expenses for staff salaries.

The accounts give details on salaries – this covers all club staff including players. The amount spent on salaries in the 2019/20 season was £4.3m, c. £166k higher than in the 2018/19 season. Note that this will include bonuses and any payments for termination of players / manager’s contracts.

**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 decreased year on year by c. £0.1m.

**Tax:** The club did not incur a corporation tax charge in the year which is as expected given they made a loss in the year.

**Other things to note:** The club made no salary or dividend payments to directors or the chairman, consistent with the prior year. Such payments must be stated in the club accounts had they been made.

## The “Balance Sheet” or “Statement of Financial Position”

This shows the “**financial position**” of a company and is shown for the year-end date only – in this case 30<sup>th</sup> June 2020. It shows how many “**assets**” a company has, and how many “**liabilities**” – the difference between these two figures is called the “**net assets**”. The balance sheet also shows a company’s “**capital and reserves**” – this is the amount that has been paid for the shares in the company and the historical profits/ losses made by the company since it was formed.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020			
	Note	2020 £	2019 £
<b>Fixed assets</b>			
Intangible assets	10	199,024	259,547
Tangible assets	11	13,148,790	13,107,579
Investments	12	1	1
		13,347,815	13,367,127
<b>Current assets</b>			
Stocks	13	68,350	112,738
Debtors: amounts falling due within one year	14	1,560,368	3,168,763
Cash at bank and in hand	15	3,349,958	2,708,217
		4,978,676	5,989,718
Creditors: amounts falling due within one year	16	(1,488,521)	(1,977,835)
		3,490,155	4,011,883
<b>Net current assets</b>			
		3,490,155	4,011,883
<b>Total assets less current liabilities</b>			
		16,837,970	17,379,010
Creditors: amounts falling due after more than one year	17	(182,800)	-
<b>Provisions for liabilities</b>			
Deferred tax	18	(174,230)	(174,230)
		(174,230)	(174,230)
<b>Net assets</b>			
		16,480,940	17,204,780
<b>Capital and reserves</b>			
Called up share capital	20	2,526,283	2,526,283
Revaluation reserve	21	742,770	742,770
Profit and loss account	21	13,211,887	13,935,727
		16,480,940	17,204,780

## **Assets**

An asset is a resource owned by a company which has some economic benefit to the company – either short term or 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 not significantly moved year on year.

### ***Fixed assets – intangible***

Intangible assets are ones that cannot 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 so is included in the P&L account. The balance may also be “impaired” if there is a reason to believe the asset no longer holds value. For example, if a player suffered a career ending injury.

The intangibles balance has decreased by £60k. This has been driven by new items of £158k, offset by disposals of £37k, and an amortisation charge of £181k.

It is worth noting that transfer fees agreed after 30 June 2020 (i.e., pre-season for the 2020/21 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 (generally within twelve months). 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). The balance has decreased by c. £40k.

## 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 car 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

	2020 £	2019 £
Trade debtors	1,075,398	2,658,880
Other debtors	349,320	186,697
Prepayments and accrued income	135,650	323,184
	<u>1,560,368</u>	<u>3,168,761</u>

Debtors have decreased significantly from £3.2m to £1.6m suggesting a significant payment to the club for an amount owed at the previous year-end (30 June 2019).

## Cash

This is just what it sounds like – what is in the club's bank account. Ever heard of the expression "cash is king"? It is 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 £2.7m to £3.3m. The club includes a "cash flow statement" in its accounts which gives the main reasons for movements in its cash balances.

During the 19/20 season, the club made a loss of £0.7m one would expect a reduction in cash to follow. However, the club's debtor balance reduced by £1.6m resulting in an inflow of cash of this amount, and it also received government grants of £0.4m.

The club continues to have no debt.

## 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 less than 12 months. The key items for STFC are:

#### Creditors: Amounts falling due within one year

	2020	2019
	£	£
Payments received on account	296,530	530,355
Trade creditors	461,797	764,221
Other taxation and social security	559,810	179,503
Other creditors	13,807	76,545
Accruals and deferred income	156,577	427,211
	1,488,521	1,977,835

- **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 20/21 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 the customer could ask for their money back if they changed their mind. The balance is lower than the prior year. I expect this is due to the impact of Covid and more supporters holding on before committing to a season ticket although the accounts do not expressly state this.
- **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 decreased by c. £0.3m 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 is fairly flat year on year in aggregation.

### Capital and reserves

This shows:

- The only change in the year is the loss for the year of £0.7m.
- The P&L reserve stands at £13.2m – this is the total cumulative profits the club has recorded since it was founded as a company.
- Share capital has remained stable at £2.5m as has the revaluation reserve at £0.8m.
- This means total equity stands at £16.5m. This is equal to the amount the club's assets are higher than its liabilities.