

Factsheet

Managing Cash Flow

Introduction

All Football Club Committees should keep an eye on the cash flow situation and liquidity of the Club, as maintaining adequate available funds is crucial to all of your Club's activities and plans, in both the short and long term. While we play our role as community sporting organizations, and we don't set out to make exorbitant amounts of money from our players, we do have to ensure we are allowing ourselves a safety net to properly operate our Club, and this comes through effectively managing Club cash flow.

What is a Cash Flow Statement?

Cash Flow refers to generating or producing cash inflows and using or consuming cash outflows. You should think of cash flow as the lifeblood of your Club, and you must always keep that blood circulating in order avoid failure and to avoid your heartbeat stopping. Managing cash flow is essential to the successful operation of your Club.

The Cash Flow Statement shows how a Club spends its money and where a club receives its money from in a specified period. The Cash Flow Statement has a twofold purpose: to summarize cash flows and to summarize changes in the financial condition of the business during the period. The changes in the financial condition of a Club are very important and should not be overlooked. Cash flow may be satisfactory, but this doesn't guarantee that changes in the financial condition of a Club are satisfactory. It is always important to understand the story behind the figures that are being presented in the financial reports.

Why do you need to pay attention to the Cash Flow Statement?

Every Club should pay attention to the Cash Flow Statement because:

1. It shows your liquidity - That means you know how much operating cash flow you have in case you need to use it. So you know what you can afford, and what you can't.
2. It lets you predict future cash flows - You can use Cash Flow Statements to create cash flow projections, so you can plan for how much liquidity your business will have in the future. That is important for making long term business plans and decisions.

Cash Flow vs Profit

There is an interesting relationship between profit and cash flow when it comes to any organisation's financial reports. Making profit generates cash flow, but the actual increase in cash during a given period is almost always lower or higher than the profit number. This can be due to

revenue that hasn't been received yet and becomes accounts receivable, or expenses that haven't been paid yet and become a payable account.

The following points illustrate how cash flow relates to profit:

1. The amounts of cash flows during the period are rarely equal to the revenue and expense numbers in the Profit & Loss Report for the period.
2. Actions that lower cash flow include increasing accounts receivable and inventory and/or decreasing accounts payable and accrued expenses payable.
3. Actions that raise cash flow include decreasing accounts receivable and inventory and/or increasing accounts payable and accrued expenses payable.

A Club's cash flow can be defined as the number that appears in the Cash Flow Statement as net cash flow. A Club's profit is shown as net income on the profit and loss statement. However, because of accrual accounting, net income does not necessarily mean that all receivables were collected from members, sponsors, etc.

From an accounting standpoint, the Club might be profitable, but if the receivables become past due or uncollected, the Club could run into financial problems. Even the biggest profitable companies can fail to adequately manage their cash flow, which is why a cash flow statement is a critical tool for managing your Club finances.

The key difference between cash flow and profit is timing. In short, profit can show you how successful your business is, but it cannot tell you if your business has the money to survive long-term. On the flip side, an unprofitable Club that is cash flow positive will have a hard time remaining cash flow positive for long.

If your cash flow analysis shows that you are about to be low on cash and not able to make your payments, you could adapt by obtaining financing, cutting costs, or trying to increase income. Cash flow analysis is crucially important, because if left unmanaged it can lead to solvency issues.

Solvency

Solvency is the ability of a Club to meet its long-term debts and financial obligations. This can be one of the most important measures of financial health, since it is one way of demonstrating a Club's ability to manage its operations and survival into the foreseeable future.

Solvency involves making sure the Club:

1. Can pay all bills when due
2. Has adequate funds in the accounts for scheduled expenses
3. Can fund all its programs, activities, and other contractual obligations

4. Regularly review its cash-flow forecasts, identifying any variances and noting their potential impact on solvency

When a Club becomes unable to pay the bills, debts and obligations that become due it will be deemed to be insolvent. In cases of insolvent trading, committee members may commit an offence by allowing the organisation to incur debts while insolvent. Committee members may then be personally liable to pay any debts incurred by the Club or to compensate for any loss which has been suffered.

Understanding Cash Flow

The process of managing your Club's cash flow situation is an important one, and can be broken down into several key steps:

1. Review Financial Reports

First port of call is to read and review your Club's financial reports to determine your financial position, whether you have a healthy cash balance, and whether you have positive cash flow growing that balance or a negative cash flow diminishing those reserves.

2. Analyse the Information

Mentioning that a Club has negative cash flow can cause a knee-jerk reaction. They must be in deep trouble and on the edge of bankruptcy. But not so fast. In reading a financial report, look for the reasons behind the numbers, which can tell you the real story. The causes of a negative cash flow for the period may be temporary and unlikely to repeat in later years. Then again, the reasons may be systemic and likely to continue until drastic action is taken by the business.

To control cash, you should control cash inflows and cash outflows. To do that, you need cash-flow information, and you need to know how well your current cash balance stacks up against the short-term demands on cash.

The timing and size of cash receipts and payments are the two most important factors in cash flow. Revenue and expenses are recorded when the cash flow happens. Revenue is recorded when cash is received, and expenses are recorded when cash payments are made — not before and not after.

Managing Cash Flow comes down to anticipating when money will come in to your Club, and when it will need to be paid out, then playing with that all important balancing act to ensure you don't dip too far into your cash reserves so you can retain that buffer in your bank and avoid financial trouble.

This sounds a challenging task but the reality is it is not that hard. Basically, all Clubs will have similar revenues and costs each year which are usually paid or received at about the same time each year.

Usually, the majority of registration, uniform and sponsorship revenue will come in in the two months prior to the start of the season and the two months after the season starts. Revenues from social events will typically come in the month they are held. The same goes for fundraising activities.

Things like canteen and bar sales will occur when you expect people at your Club. The starting point for canteen and bar revenue is to look at the competition fixture and see when your home games are.

The financial statements or cash flow statements from previous years will be a tremendous help in regard to expenses because most will be recurring which will help with your planning and management. Typically, electricity and gas will be quarterly, facility hire will be monthly, coaches and player payments (if applicable) will be weekly, trophies at the end of the season etc.

3. Adjust to Improve Cash Flow

The main strategy behind making adjustments to improve cash flow is to get money that you are owed such as registration fees in as quickly as possible, while paying out money that you owe (e.g. bills) over as long a period as you are allowed.

For example, by providing online payment options for registrations rather than collecting cash later you ensure guaranteed access to that cash instantly rather than unsecured collection of that cash potentially after you need it.

Additionally, you could consider paying Club bills by direct debit over the course of a year rather than in one lump sum, or negotiating a payment plan to lower the immediate pressure on your reserves. There are many ways your Club can improve cash flow, some of which are outlined in the following section.

Improving Cash Flow

Once your Club can read, analyse, and understand your cash flow position, the next step is to focus on improving your cash flow and overall position. To improve cash flow your Club might:

1. Provide Easier Payment Options

One way to encourage payments by players or members is to make the process as easy as possible for them. Cut through as much red tape as possible and limit the amount of obstacles between them and payment. By incorporating online or direct debit payments into

your payment offering, it frees up cash handling as well as solidifying your Club's cash flow with recurring income.

2. Offer Early Bird Payment Options

Offer rebates or discounts for early payments by offering a discount on registration fees if members pay in advance or pay before a certain deadline. This incentivizes your members to pay early and gets cash in the door quicker than usual. It may also save you having to chase up players later in the year and hopefully reduce the number of players who never pay.

3. Charge A Late Payment Penalty

Another key to successful cash flow management is having a strong invoicing policy. Choose a consistent time when invoices are due (E.g. Due when registering, within 15 days, etc) and stick to it. You might even take it a step further and include a specific due date to eliminate any confusion. Have a late payment penalty in place for anyone who exceeds the due date. Not only will this help increase your chances of getting your money, but it may also set you apart as a professionally run Club.

4. Set Cash flow Targets

Cash flow is key in ensuring that your club has enough money to function properly. Set targets for how much cash you want to have on hand, then work to make sure you meet those targets. This could incentivize your Committee members to help you meet those goals.

5. Set Clear Payment Terms

Before your players register or join the Club under payment agreements, make sure you are very clear on what the payment terms are. Then, ensure the terms and the parties' agreement to the terms are documented. By agreeing to payment terms in advance, you increase the chances that members understand what the terms are and that they meet them.

6. Minimize Debtor Days

When you enter into a payment arrangement with members, try to make sure that it minimizes the days between when the member is invoiced (or when they are in debt to you) and when they are required to pay a minimum amount.

7. Use Technology to Manage Cashflow

Do not just rely on your Committee or yourself to manage the cash flow situation. Instead, rely on technology that handles processes like invoicing, payment collection, and receipt issuing. That way you can take some of the processes off your plate and give yourself more time to focus on other areas of the Club.

Cash flow is a crucial element of managing your Club. Without retaining a sufficient cash balance, you expose your Club to risks such as not being able to pay your bills and afford to operate. This could set yourself up for catastrophic circumstances, including shutting the doors on your Club.

Therefore, it is vitally important that your Committee constantly monitor, analyse and improve your cash flow to protect the long-term viability of your Club.

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