
KSP Polonia Warszawa's Financial Problems – Analysis of Liquidity and Debt

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Abstract

Financial liquidity is one of the most important areas of running business operations. Each entity must keep it at an adequate level. Lack of financial liquidity is the main factor leading to bankruptcy of companies. The analysis of liquidity and debt verifies the ability of an entity to pay current liabilities and also confirms the company's ability to survive on the market. Based on the results of the analysis of liquidity and debt the management should therefore prepare liquidity management strategy. The article is based on the available financial statements of KSP Polonia Warszawa Sportowa Spółka Akcyjna and presents an analysis of its liquidity and debt. The results of this analysis for years 2008-2010 were very alarming and indicative of the upcoming bankruptcy of the club. In July this year, an application was filed with the court confirming insolvency of the club and, by virtue of a decision issued by PZPN (Polish Football Association), Polonia Warszawa, so far playing in the Ekstraklasa (Polish top division), will start the next season in the 4th division. It will take the club many years to regain its position.

Keywords: sports club, KSP Polonia Warszawa, financial problems, football division, liquidity, debt.

Introduction

PZPN (Polish Football Association) decided that Polonia Warszawa, one of the oldest football clubs in Poland, did not receive the license for playing in Ekstraklasa (Polish top division) and in the European cups in the season 2013/2014. By this decision, Polonia Warszawa had to leave Ekstraklasa. By the initial decision of PZPN, the club was supposed to start the next season in the district league. Polonia Warszawa's situation aroused emotions among its supporters, sports activists and journalists.

According to its charter, Polonia Warszawa is a sports club operating in the form of an association, and the main objective of its operation is the promotion of physical culture and sport. The club's activities are regulated by the provisions of the Act dated April 07, 1989 - Law on Associations (Journal

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of Laws from 1989, no. 20, item 104 as amended) and the Act on Sports dated June 25, 2010 (Journal of Laws from 2010, no. 127 item 857) replacing the previous acts: The Act on Physical Culture and the Act on Competitive Sports. As an association, the club derives its income mainly from selling advertising services for the benefit of the sponsor and from selling tickets. The company's charter provides for the possibility of conducting business activities, while the income from these activities is used to achieve the company's statutory objectives and cannot be divided between the association's members (Charter of Polonia Warszawa Sports Club Association, www.dumastolicy.pl). Polonia Warszawa, not being granted the license for playing in Ekstraklasa, will be relegated to the 4th league in the new football season. PZPN's previous announcements suggested that the club would be playing in the 6th league – the district league. After pressures from club supporters and sports community representatives, PZPN amended the Act on sports and, following the amendment a club reporting itself for the football games may, with PZPN's prior consent, play in the fourth league, in the case of honoured clubs. Polonia Warszawa received such consent.

Polonia Warszawa owes its situation to financial problems. The club is in debt, has no funds to pay the license fee, does not pay its players, is in arrears towards the Social Security Office (ZUS) and the Tax Revenue Office. What led to such gross negligence in the club's financing? The problem is complex and involves bad management of the personnel managing the club and relates to the club's finances. Based on the financial statements presented by the club, the article attempts to evaluate the club's financial situation examining two significant aspects - Polonia Warszawa's liquidity and debt. The available financial statements, namely those the company submitted to the National Court Register (KRS), have been analyzed. At present, the available statements cover the years 2008-2010. The very important financial statements for the years 2011 and 2012 have not been accepted by KRS yet, which obviously does not mean that the club's financial problems appeared as late as in 2012.

Wrong financial management during previous years has forced the club owner to notify a bankruptcy liquidation of KSP Polonia Warszawa in June this year. The analysis of liquidity and debt for 2008-2010 contains crucial information necessary for evaluation of current economic situation of the Club. The outcome data from the reports were alarming. Maintaining and continuation of the financial management policy led to the bankruptcy of the club.

History of KSP Polonia Warszawa

Polonia Warszawa is one of the oldest sports clubs in Poland. It began its football activities in 1911. The club's name - Polonia (Latin word for Poland), demonstrated the patriotic attitude of its founders during the Russian annexation. Within several years, Polonia became the most important football club in the then Warsaw, recording a series of successes in sports games in the country. In the years 1928-1939, general Kazimierz Sosnkowski, Józef Piłsudski's closest associate, was the club's president. During World War II, football games were forbidden by the invaders but the championships of Warsaw were played in this period nevertheless. Polonia's numerous football players were killed during the occupation, joining the fight with the Nazi as part of Armia Krajowa (Polish Home Army). The post-war period is a very difficult period for the club, but also full of successes. The club, without any back-up facilities or sports infrastructure, became the champion of Poland in 1946. People from Warsaw identified themselves with Polonia very strongly. This club had faithful and numerous supporters. In 1951, the club's name was changed to Zrzeszenie Sportowe – Kolejarz (Sports Association - Kolejarz). This change resulted from the club's operation vision as seen by the communist authorities.

Sports circles were established in working places instead of sports clubs. Polskie Koleje Państwowe (Polish State Railways) became the patron of the former Polonia. Unfortunately, these changes (including the club's financing) resulted in Polonia's weakness and then marginalization in the domestic football games (Morawski and Krakowiak, 1992; http://ksppolonia.pl/podstrona,151-historia_polonii_warszawa.html). It was only after communism ended that Polonia returned to Ekstraklasa as an important and strong team. Unfortunately, from 2000 the club has been systematically falling down in the division system, first to the 1st league, then to the 2nd league. The club returned to Ekstraklasa a result of taking over another club - Dyskobolia Groclin Grodzisk Wielkopolski. Józef Wojciechowski became the club's owner and president, taking more than 16 000 stocks for the amount of PLN 20 million. The club's financial situation is becoming worse and worse every year. In the summer of 2012, the club was taken over by a new owner, Ireneusz Król. The club started experiencing problems with settling its liabilities, so the leading players left it. Polonia Warszawa is in huge debt.

Polonia Warszawa in the division football system in Poland

PZPN (Polish Football Association) is an association being the only legal representative of Polish football in Poland and abroad. When performing its tasks, PZPN complies with the provisions of charters, regulations, guidelines

and decisions of FIFA and UEFA of which it is a member. PZPN is responsible for the organization and the course of division games. Based on legal regulations, PZPN grants or refuses to grant football licenses to sports clubs. This is a basic procedure, repeated for each football season. In order to receive a license for playing in the Polish football league, clubs need to meet a number of criteria. These criteria relate to the sports infrastructure, the personnel and administration, the sports, legal and financial criteria are also strictly defined. The basic criterion the clubs need to meet to receive the license is to have a reliable economic-financial situation. The club must not have any overdue liabilities towards football clubs resulting from transfer activities and fees to PZPN (the so-called F-04 criterion), it also must not have any overdue liabilities towards its employees, the Social Security Office and the Tax Revenue Office (the so-called F-06 criterion).

In May this year, PZPN presented a list of sports clubs which received the license for playing in Ekstraklasa. The only club from Ekstraklasa which did not receive the license is Polonia Warszawa, and the reason for such a decision is the club's difficult financial situation. The club appealed against PZPN's decision to the Appeal Commission for Club Licenses at PZPN. However, this commission upheld the previous decision, emphasizing that Polonia Warszawa does not meet the F-04 and F-06 criteria included in PZPN's License Manual 2013/2014 and in the prior Resolution no. V/80 dated April 12 and 13, 2008 of PZPN's Management Board on licenses for clubs.

Polonia Warszawa was the 5th team in Ekstraklasa in the football season 2012/2013. In the new season, according to PZPN's announcements, Polonia Warszawa will be playing in the 4th league.

Research methods

Operations of business entities require periodical analysis. Thanks to it we can determine whether the previous operations have brought about the intended effects as well as specify the directions and methods of improving the business operational effectiveness. Financial analysis is a research tool for the assessment of operations of a business entity. It is a necessary tool of business finance management.

Financial statements are the basic source material for financial analysis. They present assets and financial position of a company and its financial results obtained in a specified period. Financial statements are analyzed using the initial and ratio analysis.

The initial financial statement analysis is determined as an initial stage of financial analysis. It is based on the analysis and assessment of the information resulting from basic financial statements, i.e. income statement,

balance sheet and cash flow statement, resulting in the formulation of initial hypotheses concerning the financial position of a company. As part of the initial analysis, we conducted a vertical analysis (analysis of structure) and a horizontal analysis (analysis of dynamics) of the financial statement elements.

The ratio analysis is a method of analytical tests of information that is included in financial statements. Thanks to the financial ratios, we may control the condition and financial position of a company and these ratios can be used for current assessment and for forecasting the financial position of the analyzed entity.

The general formula of financial ratio is as follows:

$$W = \frac{Y}{X}$$

where:

W – financial ratio

Y, X – financial phenomena

Some selected areas of financial analysis have been used in the article, thanks to which we can analyze financial liquidity and debt of an entity.

Financial liquidity was measured on the basis of:

- static methods,
- ratios of assessment of cash flows obtained for a reporting period.

Debt of a company was analyzed on the basis of selected ratios of the financial analysis that reflect the analyzed phenomenon.

The conducted analysis of liquidity and debt should provide information about:

- the correctness of the asset and capital structure,
- the ability of the analyzed company to pay current expenses,
- the ability of the analyzed entity to repay debt,
- the ability of the company to generate cash surpluses.

The lack of liquidity may indicate bankruptcy of a company in the near future. The results of the analysis are the basis for the company management to create a strategy that enables keeping and improving liquidity.

Analysis of KSP Polonia Warszawa SSA general financial situation

KSP Polonia Warszawa is a football club organized in the form of a joint stock company. As a joint stock company, Polonia Warszawa is obliged to present the annual financial statement showing its economic position and financial results. This statement is subject to a mandatory audit by an expert auditor. The statement submitted by the company is published in Monitor

Polski B (Official Journal of the Republic of Poland). Polonia Warszawa is an entity which does not present its financial statements systematically. As at today, i.e. July 14, 2013, the current financial statement submitted to the National Court Register is the statement for the year 2010. In this statement, the expert auditor notes that the company did not submit the statement for the year 2009 (financial data for the year 2009 is available in the statement for the year 2010 – as comparative data). However, it is worth analyzing the last available financial statements because the company's situation does not change so rapidly every year and the previous statements are the background for evaluating KSP Polonia Warszawa's financial situation today.

The article analyzes a group of ratios showing the liquidity and debt in the company.

The analysis covers the period 2008-2010. As it has already been pointed out, these are the only available financial statements presented in Monitor Polski B and in the National Court Register.

Financial management indicators have been used in order to analyze liquidity and debt. These indicators allow us to carry out a detailed analysis of the financial situation and ability to pay liabilities of the company. The performed liquidity and debt analysis should clarify the following tasks:

- Are the Club's financial problems a result of faulty management during last two years?
- What are the main reasons for losing the financial capacity by the club?

However, before the presented article emphasizes the liquidity and debt, it is worth examining a part of the income statement. The basis for financial problems, in the form of unpaid debts, is the relation of revenue to operating costs. The income statement presented by the club by function does not make it possible to precisely analyze its operating costs but it may be assumed that the major items are the remuneration for KSP Polonia's players and charges on remunerations. The website polsatsport.pl revealed part of the document dated July 2012 which concerned contract details of Polonia Warszawa's players. The document shows that average, monthly salaries of Polonia Warszawa's players amount to PLN 50-60.000 (Kołtoń, 2013). The sports press defined Polonia Warszawa as "the island of welfare". Almost each player who joined this club was among the best paid players in Ekstraklasa. Throughout several years, Polonia Warszawa contracted more than one hundred players. Table 1 presents the relations of sales revenues to operating costs.

Table 1. Unprofitable sales of KSP Polonia Warszawa

Itemization	2008	2009	2010
Net revenues from sales	11,717,242	11,790,051	12.,202,168
Operating costs	18,580,011	22,586,965	33,717,041
Loss on sales	-6,862,769	-10,796,912	-21,514,871
Net loss	-21,256,975	-10,891,096	-19,861,326

Source: Based on financial statements from KSP Polonia Warszawa.

Sales revenues in Polonia Warszawa are two or even three times (in 2010) lower than the incurred operating costs. This obviously affects the club's financial result. Throughout the whole examined period, Polonia incurred a financial loss. This deficit of sales is the foundation for Polonia Warszawa's accumulating financial problems in the next years.

Liquidity of KSP Polonia Warszawa

Liquidity is defined as the ability to settle current liabilities, formed during the conducted business activities. This is the classic definition of the phenomenon of financial liquidity. Another definition of liquidity assumes that liquidity also happens when one asset is exchanged for another (Pałczyńska-Gościński, 2006). Financial liquidity is also defined as the ability to purchase (Michalski, 2004). We may also encounter the definition of *income balance* being a long-term financial liquidity. It is treated as a surplus of cash revenues over cash expenses (Maślanka, 2008). Apart from liquidity, there is the notion of solvency in the financial analysis. It should not be identified with liquidity because solvency means the entity's ability to fully service the debt, i.e. the company may settle all liabilities at any time.

Maintaining financial liquidity is the guarantee of ensuring relevant functioning for the company. Companies may not earn profits for some time and they will not be threatened with bankruptcy. However, if they have problems maintaining liquidity, business activities are abandoned in many cases.

The examination and analysis of the business entity's liquidity is worth conducting in two perspectives, the static and the dynamic one. In order to evaluate the liquidity of a given entity in a complex manner, we use information included in the financial statement, and in particular in the balance sheet and the cash flow statement.

Static analysis of liquidity

In order to present the comprehensive perspective of the audited entity's financial liquidity, it is worth beginning such analysis with examining the relations between the capital and the assets. The golden rules of finance and balance are used for this purpose. Table 2 presents the results of the analysis of these two basic principles which should be kept in the company.

Table 2. The golden financial rule of KSP Polonia Warszawa

Ratios	2008	2009	2010
(Fixed assets/Long-term capital) ≤ 1	2.91	-0.25	-0.42
(Current assets/Short-term capital) ≥ 1	0.81	0.13	0.20

Source: Authors' research based on financial statements from KSP Polonia Warszawa.

The golden financial rule binds the capital with the assets. The long-term capital should, according to this rule, finance the long-term assets, and the short-term capital should cover the short-term assets. Inferring from the golden rule of financing we may already see very serious symptoms of the examined company's financial problems. In the examined period, KSP Polonia does not meet the assumptions of the golden financial rule. In addition, this company achieves negative results in the examined area. When analyzing the financial liquidity in the situation when negative values of examined indexes are achieved, this means that the situation is really very difficult and the company is threatened with bankruptcy. Therefore, KS Polonia's financial problems began earlier and the club's difficult situation stems from incorrect financial management. Table 3 presents the results of the analysis of the golden balance rule.

Table 3. The golden balance rule of KSP Polonia Warszawa

Ratios	2008	2009	2010
Equity capital/Fixed assets ≤ 1	0.34	-4.0	-2.40
Constant capital/Fixed assets > 1	0.34	-4.0	-2.39

Source: Authors' research based on financial statements from KSP Polonia Warszawa.

According to the golden balance rule, the company's fixed assets should be completely financed with equity. If this condition is not met, the value of equity which is too small may be increased by long-term liabilities and then the equity earned in such a manner should finance the company's fixed assets. In the examined period, Polonia Warszawa did not achieve target values typical of the examined indexes. On the contrary, in the years 2009

and 2010 it achieved negative values of the examined indexes. KSP Polonia has a negative value of equity which completely disturbs the golden balance rule (compare Tables 2 and 3).

To sum up, the examined company did not observe the golden rules of finance and balance. We may thus conclude that the company has had serious problems with financing its activities as early as from 2008.

Financial liquidity understood as the ability to settle current liabilities is evaluated in the company based on three basic ratios. These ratios illustrate the relation between current assets and current liabilities. Below we present the formulas for determining ratios (Sierpińska and Jachna, 2007, pp. 81-82).

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{Quick ratio} = \frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$$

$$\text{Treasury ratio} = \frac{\text{cash and other pecuniary assets}}{\text{current liabilities}}$$

Table 4 presents the results of the liquidity analysis from the static perspective.

Table 4. Ratios of liquidity of KSP Polonia Warszawa

Ratios	Optimum Value	Ratios of Polonia Warszawa 2008	Sectoral ratios 2008	Ratios of Polonia Warszawa 2009	Sectoral ratios 2009	Ratios of Polonia Warszawa 2010	Sectoral ratios 2010
Current ratio	1.2-2	0.81	3.65	0.13	1.37	0.20	2.66
Quick ratio	>1	0.73	3.27	0.13	1.28	0.18	2.29
Treasury ratio	-	0.10	1.99	0.001	0.81	0.001	1.40

Source: Authors' research based on financial statements from KSP Polonia Warszawa.

The current liquidity ratio expressing the relation between current assets and current liabilities in the examined company did not reach the values considered to be optimal and confirming the preservation of liquidity. This ratio adopted values that differed widely from model values. Another increased liquidity ratio, which in its formula removes those assets which are characterized by a low degree of exchangeability into cash (stock, prepayments) from current assets also did not achieve the optimum level in the examined period. The achieved results confirm the previous analysis results that the examined sports club does not have the ability to settle

current liabilities and this leads to their accumulation. The presented ratio is considered the most reliable in the evaluation of financial liquidity, in the static perspective.

The third of the presented ratios, the so-called cash ratio, examines the company's ability to immediately settle liabilities with possessed cash funds. Authors presenting the problems of liquidity analysis most often do not provide a precise optimum value here. However, we may find the information that the optimum ratio value is at the level of 0.2 (Pomykalska and Pomykalski, 2007, p. 74). It is assumed that cash resources should be kept at a low level. In the years 2009 and 2010 Polonia Warszawa actually had no cash funds. Liquidity ratios of KSP Polonia Warsaw were related to sector ratios for sports activities, recreation and entertainment. KSP Polonia's ratios on industry confirm clearly its problems with liquidity.

Dynamic analysis of liquidity

Companies do not go bankrupt because they do not earn profit. They go bankrupt because they do not have funds to settle their liabilities. The cash flow statement is a very important element of the financial statement. It demonstrates the cash funds condition in three areas of business entity activities: in the operating, investment and financial activities. The cash flow statement presents the actual cash incomes and expenses. Cash flows are used to examine financial liquidity, effectiveness in financial management. Table 5 presents the results of a preliminary analysis of the cash flow statement, and thus indicates the general financial situation of the examined entity in the field of operating, investment and financial activities.

Table 5. Cash flow directions of KSP Polonia Warszawa

Cash flows	2008	2009	2010
Flows from operating activities	-2,286,499 (-)	-11,360,821(-)	-21,965,371(-)
Flows from investment activities	23,852,674(+)	-2,997,824 (-)	-4,504,698 (-)
Flows from financial activities	-23,500,000(-)	14,359,432(+)	26,395,000 (+)
Variant	VI	VII	VII

Source: Based on financial statements of KSP Polonia Warszawa.

Analyzing cash flows in the three segments of activities and taking into account the direction of cash flows, eight possible variants of the financial situation in the company have been distinguished (Nowak, 2008, pp. 142-143). The first four variants are based on a positive balance in flows from operating activities which stabilize the company's financial situation.

The next four variants are related to the deficiency of cash funds in the operating activities. Cash flows assume variant VI in KSP Polonia Warszawa in 2008. This means that the company does not have a positive balance in the operating financial activities but earns it in investment activities, selling possessed fixed assets and intangible assets. This means that the company has financial problems and the deficiency of cash is covered by selling fixed assets. In 2009 and 2010 the club accepts variant VII. Polonia Warszawa achieves a positive balance only with regard to its financial activities. Therefore, financial deficiencies from the operating and investment activities are covered by credits, loans and issuing stocks. To sum up, the club's financial situation is unfavourable. Polonia Warszawa does not earn in the manner which is the most favourable for it, namely from the operating activities. Cash shortages from basic activities are covered by credits and loans and by the capitalization of investments. If such a situation is repeated in the future years, the club is threatened with the loss of liquidity.

The operating activities are the most important in the area of the presented segments of activities. Companies should conduct their basic business activities so as to ensure that a positive balance is earned. The analysis of initial cash flows is supplemented by the specification of the balance (+/-) of flows from the operating activities with the net financial result, which has been presented in Table 6.

Table 6. Cash flow and net profit (loss) of KSP Polonia Warszawa

Itemization	2008	2009	2010
Flows from operating activities	-	-	-
Net profit (loss)	-	-	-
Variant	IV	IV	IV

Source: Authors' research based on financial statements from KSP Polonia Warszawa.

The specification of these financial parameters and possible combinations leads to distinguishing four variants (Nowak, 2008, pp. 144-145). Unfortunately, the examined company does not generate a positive balance in the operating activities and does not earn a net profit. This constitutes a very unfavourable situation, variant IV. This confirms the initial results of the analysis, KSP Polonia Warszawa has serious financial problems. However, the company's management is still able to secure subsequent loans and credits and cover negative balances earned in the operating and investment activities.

An important supplementation of the initial analysis of cash flows are dynamic liquidity ratios, the determination of which is based on data coming from the cash flow statement.

The dynamic analysis ratios include three basic groups. These are:

- cash flow structure ratios,
- cash sufficiency ratios,
- cash efficiency ratios.

In most cases, the formula of these ratios is based on positive cash flows from operating activities. Below we present the formulas for cash flows structure ratios (Olzacka, 2006, pp. 144-146).

Abilities to make cash balance from operating activities:

$$\frac{\text{cash flows from operating activities}}{\text{cash flows from investment activities} + \text{inflows from investment activities} + \text{inflows from financial activities}}$$

Participation of the net profit in the operating activities:

$$\frac{\text{net profit}}{\text{cash flows from operating activities}}$$

Participation of the depreciation in the operating activities:

$$\frac{\text{depreciation}}{\text{cash flows from operating activities}}$$

The financing of operational activities:

$$\frac{\text{negative cash flows from investment activities}}{\text{cash flows from operating activities} + \text{cash flows from financing activities}}$$

Dependences on financing outside sources:

$$\frac{\text{inflows from financing activities}}{\text{cash flows from operating activities}}$$

The monetary rate of self-sufficiency of the financial activities:

$$\frac{\text{inflows from financing activities}}{\text{outflows from financing activities}}$$

Table 7 presents the values of cash flow structure ratios.

Table 7. Cash flow structure ratios of KSP Polonia Warszawa

Ratio	2008	2009	2010
Abilities to make cash balance from operating activities	-0.01	-3.79	-2.39
Participation of the net profit in the operating activities	-	-	-
Participation of the depreciation in the operating activities	-0.90	-0.11	-0.10
The financing of operational activities	-	-1.00	0.21
Dependences on financing outside sources	-	-1.26	-1.20
The monetary rate of self-sufficiency of the financial activities	-	-	-

Source: Authors' research based on financial statements from KSP Polonia Warszawa.

The determined values of cash flow structure ratios only confirm the previous conclusions from the initial analysis of liquidity. The ratios assumed negative values. They do not correspond to the main assumptions which result from the formula of determining the ratios. Two approaches in the manner of presentation of negative values of the examined ratios have been developed in the analysis of cash flows. One approach assumes omitting these ratios in the analysis, the other one assumes their presentation so as to emphasize financial problems. Therefore, KSP Polonia Warszawa has a difficult financial situation in the examined period. Generating a negative balance in the operating activities, we may not indicate the share of cash surplus in the operating activities as compared to all implemented incomes (ratio no. 5, Table 7). We may not examine the share of profit in the operating cash flows because the company earned a net loss and, additionally, net operating cash flows are negative.

Below are the formulas for **cash flows sufficiency ratios** (Olzacka, 2006, pp. 148-149).

$$\text{Ratio of the overall sufficiency of cash} = \frac{\text{cash flows from operating activities}}{\text{debt repayment} + \text{outflows from investment activities} + \text{payment of dividends}}$$

$$\text{Ratio of repayment of debt} = \frac{\text{repayment of credits and loans}}{\text{cash flows from operating activities}}$$

$$\text{Interest coverage ratio} = \frac{\text{interest}}{\text{cash flows from operating activities}}$$

$$\text{Long-term debt ratio} = \frac{\text{repayment of long-term credits and loans}}{\text{cash flows from operating activities}}$$

$$\text{Ratio of investment expenditure} = \frac{\text{purchasing of intangible assets and tangible fixed assets}}{\text{cash flows from operating activities}}$$

$$\text{Dividend payout ratio} = \frac{\text{dividends}}{\text{cash flows from operating activities}}$$

The Table 8 presents a group of cash sufficiency ratios.

Table 8. Ratios of the cash sufficiency of KSP Polonia Warszawa

Ratios	2008	2009	2010
Ratio of the overall sufficiency of cash	-9.71	-3.79	-2.37
Ratio of repayment of debt	-	-	-
Interest coverage ratio	-	-	-
Long-term debt ratio	-	-	-
Ratio of financing of investment expenditure	-0.02	-0.26	-0.42
Dividend payout ratio	-10.27	-	-

Source: Authors' research based on financial statements from KSP Polonia Warszawa

These ratios illustrate the capacity of operating activities to generate cash. The earned surplus should cover the expenses in the investment activities and, first of all, in the financial activities. The ratios are negative. KSP Polonia does not pay its liabilities on account of loans and credits (both long-term and short-term), does not pay interest, small investment expenses are not settled with funds from the operating activities (deficiency). The only financial expense which took place in the analyzed period is that incurred in 2008 when the company paid more than PLN 23 million for dividend and other payments to its owners.

Below are the formulas for cash flow efficiency ratios (Olzacka, 2006, pp. 149-152).

Ratio of monetary of sales performance:

$$\frac{\text{cash flows from operating activities}}{\text{net revenues from sales of products, goods and materials}}$$

Ratio of to the operating surplus to profit from operating activities:

$$\frac{\text{cash flows from operating activities}}{\text{profit on operating activities}}$$

Ratio of monetary of capital performance:

$$\frac{\text{interest}}{\text{cash flows from operating activities}}$$

The next group of dynamic liquidity ratios are cash efficiency ratios (see Table 9).

Table 9. Ratios of the cash efficiency of KSP Polonia Warszawa

Ratios	2009	2010	2011
Ratio of monetary of sales performance	-0,19	-0,96	-1,8
Ratio of to the operating surplus to profit from operating activities	-	-	-
Ratio of monetary of capital performance	-0,64	-2,39	-1,4

Source: Authors' research based on financial statements from KSP Polonia Warszawa.

The higher the value of cash efficiency ratios, the better the company's financial situation. KSP Polonia Warszawa has no cash surplus from the operating activities and this affects the ratio values. The company did not earn operating profit. Another group of financial liquidity indicators only emphasizes the football club's difficult situation.

Debt analysis of KSP Polonia Warszawa

Polonia Warszawa's financial problems result from the lack of cash funds to settle liabilities. The club did not receive a license because it did not pay its employees, players, did not pay ZUS premiums and did not pay advance income tax payments. The club's situation today results from ineffective finance management in the previous years. The symptom of Polonia's financial problems may be recorded as early as in 2008 and in the subsequent years the financial results only deteriorated. The club supplemented cash fund shortages, which may lead companies to bankruptcy, by incurring subsequent credits, not settling parts of current liabilities. Table 10 presents the value of held assets and the basic sources for its financing and their dynamics.

Table 10. Financing of equity and foreign capital in KSP Polonia Warszawa

Itemization	2008	2009	2010	Growth rate 2009/2008	Growth rate 2010/2009
Total assets	3 563 628	4 743 749	14 902 115	33.12%	214.14%
Equity capital	315 471	-10 674 898	-19 879 424	-3483.80%	-86.23%
Liabilities and provisions for liabilities	3 248 157	15 418 647	34 781 539	374.69%	125.58%

Source: Authors' research based on financial statements from KSP Polonia Warszawa.

In the years 2008 and 2009, the Polonia Warszawa football club maintained the value of held assets at a similar level, and in 2010 it invested funds in a group of tangible assets (intangible assets and fixed assets). Such a situation in the company's property does not raise any objections but the manner of its financing does. Since 2009, the company's equity has been negative and the change dynamics ratio emphasizes the deterioration of this situation. Therefore, the club covers the value of held assets and the negative equity with liabilities (debt). No rules of financing are preserved (the golden financial rules presented earlier, see Table 2 and Table 3). At this point, it is worth observing an important provision in the Code of Commercial Companies, Article 397 and verify the club's situation in connection with this article. Article 397 of the Code of Commercial Companies states:

If the balance sheet drawn up by the management demonstrates a loss exceeding the sum of supplementary and reserve capitals and one third of the initial capital, the management is obliged to immediately summon the General Assembly in order to pass a resolution concerning the company's further existence (p.93).

Table 11 presents the values of capitals covering the company's net loss.

Table 11. Cover losses in accordance with article 397 of the Code of Commercial Companies

Itemization	2008	2009	2010
I. Share capital (1/3)	5 571 667	5 571 667	5 905 000
II. Supplementary capital	6 595 639	6 595 639	16 295 639
III. Other reserve capital	287 148	287 148	287 148
Net profit (loss)	-21 256 975	-10 891 097	-19 861 326
Fulfilled condition art. 397	no	yes	yes

Source: Authors' research based on financial statements from KSP Polonia Warszawa.

The year 2008 is the period of ownership changes. The financial result in the following year, 2009, is still negative but the recorded loss is definitely lower than in 2008. Unfortunately, in 2010 the situation once again becomes worse. The club records a loss at the level of almost PLN 20 million. Table 12 presents the value of liabilities and on what account they were created, their structure and dynamics.

Table 12. Structure and Dynamics of Liabilities of KSP Polonia Warszawa

Itemization	2008	Share %	2009	Share %	2010	Share %	Growth rate 2009/2008	Growth rate 2010/2009
Liabilities and provisions for liabilities	3 248 157	100.0%	15 418 647	100.0%	34 781 539	100.0%	374.69%	125.58%
I. Long-term liabilities	0	0.0%	0	0.0%	1 415 890	4.1%	-	-
II. Short-term liabilities	3 248 157	100.0%	15 400 647	99.9%	33 345 648	95.9%	374.13%	116.52%
• to related parties	0	0.0%	0	0.0%	13 113 513	37.7%	-	-
• credits and loans	0	0.0%	14 359 432	93.1%	17 036 179	49.0%	-	18.64%
• trade liabilities	950 180	29.3%	507 364	3.3%	1 192 938	3.4%	-46.60%	135.12%
• tax, customs, insurance and other liabilities	1 652 543	50.9%	532 805	3.5%	802 602	2.3%	-67.76%	50.64%
• payroll liabilities	642 147	19.8%	0	0.0%	1 186 499	3.4%	-100.00%	-
• other	3 288	0.1%	1 046	0.0%	13 918	0.0%	-68.20%	1231.23%

Source: Author's research based on financial statements from KSP Polonia Warszawa.

The club Polonia Warszawa is financed from short-term liabilities. This is a very unfavourable variant leading to a debt spiral. This is confirmed by its dynamics. The company does not settle its liabilities on account of remuneration and public liabilities and incurs short-term credits and loans which are expensive in operation.

The debt analysis should provide an answer to whether the level of external capital financing the company's activities creates a hazard for financial independence.

Below are the formulas for **debt ratios** (Sierpińska and Jachna, 2007, pp. 88-90).

$$\text{Debt ratio} = \frac{\text{liabilities and provisions for liabilities}}{\text{total assets}}$$

$$\text{Debt to equity ratio} = \frac{\text{liabilities and provisions for liabilities}}{\text{equity}}$$

$$\text{Ratio of long-term liabilities} = \frac{\text{long-term liabilities}}{\text{equity}}$$

$$\text{Interest coverage ratio} = \frac{\text{gross profit+intrest}}{\text{capital instalments+interest}}$$

This examination will be conducted in a group of ratios demonstrating the level of debt (Table 13).

Table 13. Ratios of debt of KSP Polonia Warszawa

Ratios	2008	2009	2010
Debt ratio	0,91	3,25	2,33
Debt to equity ratio	10,30	-1,44	-1,75
Ratio of long-term liabilities	0,00	0,00	0,04
Interest coverage ratio	0,00	-18,54	-11,82

Source: Authors' research based on financial statements from KSP Polonia Warszawa.

The overall debt ratio demonstrating the share of external capital in financing assets should reach the level of 0.57-0.67 (Sierpinska and Jachna, 2006, p. 168). The higher its level, which is the case of Polonia Warszawa, the higher financial risk for the creditors. The general debt ratio is supplemented by the equity debt ratio which presents the relation between debt and equity. The ratio's level should vary from 1 to 3 and this is the condition for maintaining financial stability. The lower limit refers to small companies, the upper limit - to large companies (Nowak, 2008, p. 224). Polonia Warszawa's ratios do not meet this condition. Polonia Warszawa actually does not incur long-term liabilities. This is an unfavourable situation because such liabilities are not so urgent in repayment and stabilize the company's finances. As it has already been emphasized, the company is almost entirely financed from short-term liabilities. They constitute 100% in the years 2008, 2009 and 96% in 2010 (see Table 12).

The last presented ratio is the ratio of interest coverage with gross profit. The accepted standard for this ratio ranges from 4 to 5 (Sierpińska and Jachna, 2006, p. 171). In the examined period, KSP Polonia Warszawa did not earn gross profit which was supposed to cover interest. In addition, cash flows from financial activities prove that interest charged in the income statement was not settled.

Conclusion

KSP Polonia Warszawa SSA is one of the oldest sports clubs in Poland. The club's incorrect finance management lead to today's situation in which it is relegated from Ekstraklasa to the 4th league. High operating costs, two or three times exceeding the club's revenues, were reflected in the examined company's unprofitability. Despite the club's difficult financial situation in the years 2008-2010, no effective solutions were undertaken in this respect. In the period covered by the examination and in the following years, the club financed its functioning by incurred credits and loans. It did not pay its incurred obligations as early as in the years 2008-2010.

KSP Polonia Warszawa's problem is that of the costs of basic activities. In the years 2008-2011, the club contracted more than one hundred players. The sports press widely commented the owner's extravagance and the lack of a strategy. In 2012, Polonia had a new owner. Supporters and sports activists hoped that the new investor would end Polonia's financial problems. However, this did not happen and these problems only intensified. They became so serious that they threatened the club's existence and functioning. The club had no money to pay overdue remunerations, social security premiums and other financial liabilities. It had no funds to pay the license fee.

Today, Polonia Warszawa is playing in the 4th league. Association of KS Polonia Warszawa based on MKS Polonia, namely the youth football section, is currently responsible for the club's reconstruction. The club is being built from the scratch.

The main conclusions of the analysis of liquidity and debt are as follow:

- Club's financial problems are not only the result of incorrect financial management in recent years. Serious symptoms of financial problems are confirmed by the analysis for the period 2008-2010.
- There are no possibilities to generate cash flows by company whose incomes are lower than the annual operating costs. The company will stay unprofitable, with no ability to generate profits.
- The Club failed to meet the "golden financial rule" and "golden balance rule" during the period. Violating these rules shows that the capital structure becomes inefficient. The club finances operating and investing activities by contracting more loans.
- The liquidity indicators show the club's inability to settle its current liabilities.
- Analysis of the cash flow statement shows that the company does not generate cash from main operational activities. In accordance with good practice, a company's operating activities should generate a surplus. Negative cash flows leads to a loss of liquidity.
- Debt analysis indicators fulfill the analysis of liquidity. The obtained values of the investigated indicators show an increase of financial risk.

Financial problems led KSP Polonia Warsaw to bankruptcy. For many years, the club has sustained a financial loss. The case of KSP Polonia shows that qualified and professional management is crucial for the organization. Necessary knowledge of sport organization is a key to its efficient management.

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Abstrakt (in Polish)

Płynność finansowa to jeden z najważniejszych obszarów prowadzenia działalności gospodarczej. Utrzymanie jej na odpowiednim poziomie jest niezbędne dla każdego podmiotu gospodarczego. Brak płynności finansowej jest podstawowym czynnikiem prowadzącym do bankructwa przedsiębiorstw. Analiza płynności i zadłużenia bada zdolność podmiotu do regulowania bieżących zobowiązań, ale również potwierdza zdolność firmy do utrzymania się na rynku. Kadra kierownicza powinna zatem w oparciu o wyniki analizy płynności i zadłużenia opracować strategię zarządzania płynnością. W artykule, w oparciu o dostępne sprawozdania finansowe KSP Polonia Warszawa Sportowa Spółka Akcyjna, przeprowadzono analizę płynności i zadłużenia tegoż podmiotu. Uzyskane wyniki analizy płynności i zadłużenie KSP Polonia przeprowadzone za okres 2008-2010 były bardzo niepokojące i sygnalizowały nadchodzące bankructwo klubu. W lipcu tego roku wpłynął do sądu wniosek potwierdzający upadłość klubu a decyzją Polskiego Związku Piłki Nożnej najbliższy sezon piłkarski KS Polonia Warszawa, dotychczas grający w Ekstraklasie, rozpocznie w IV lidze. Swoją pozycję w krajowej piłce nożnej klub będzie odbudowywać przez wiele następnych lat.

Słowa kluczowe: klub sportowy, KSP Polonia Warszawa, problemy finansowe, liga piłkarska, płynność, zadłużenie.

