**Factsheet**

**How to recognise if trading insolvent**

**Introduction**

The Committee is responsible for overseeing the financial affairs (and financial health) of the Club or Association. If a Club or Association is trading while insolvent, it means it is continuing to operate and enter contracts or incur debts it cannot repay. It is the responsibility of all committee members to ensure the association does not trade if it is insolvent. There are significant penalties for allowing your Club to trade while insolvent.  
  
**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, as 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. pay all bills when due;
2. has adequate funds in the accounts for scheduled expenses;
3. can fund all of its programs, activities, and other contractual obligations; and
4. regularly reviews its cash-flow forecasts, identifying any variances and noting their potential impact on solvency.

**Insolvency**

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 be personally liable to pay any debts incurred by the Club or to compensate for any loss which has been suffered.

**Signs of Insolvency**

Warning signs of insolvency can include:

* inadequate cash reserves and cash flow
* ongoing losses year after year
* absence of a strategic plan or business plan
* incomplete financial records or disorganised internal accounting procedures
* lack of cash-flow forecasts and other budgets
* increasing debt i.e. liabilities becoming greater than assets
* problems selling uniform, merchandise, stock or collecting debts
* unrecoverable registration fees from players or loans to associated parties
* creditors unpaid outside usual terms
* solicitors’ letters, demands, summonses, judgements or warrants issued against your Club
* suppliers placing your Club on cash-on-delivery terms
* special arrangements with selected creditors
* payments to creditors of rounded sums that are not reconcilable to specific invoices
* overdraft limit reached or defaults on loan or interest payments
* problems obtaining finance
* committee disputes and director resignations, or loss of management personnel
* increased level of complaints or queries raised with suppliers
* an expectation that the next year will save the club

**Duty to Not Trade while Insolvent**

The Club Committee and Office Bearers have the duty to prevent your club from trading if it is insolvent. Before the Club incurs a new debt, you must consider whether you have reasonable grounds to suspect the Club is insolvent or will become insolvent because of incurring the debt.

An understanding of the financial position of your Club when you review/sign off on the yearly financial statements is not enough. As an Office Bearer who is responsible for the organization you need to be constantly aware of your financial position to allow informed decision making.

**Consequences of trading while insolvent**

There are significant penalties and consequences for insolvent trading, including:

1. Civil Penalties – fines imposed by Government agencies for wrongdoing.
2. Compensation proceedings – court cases with aggrieved parties.
3. Criminal charges – fines, disqualification from involvement in organisations, imprisonment.

If you suspect your Club is in financial difficulty, do not take a ‘head in the sand’ attitude hoping that things will improve. As it is very rare that they do. If your Club is insolvent, do not allow it to incur further debt. Take the time to get professional accounting and/or legal advice as early as possible. This increases the likelihood the Club will survive and thrive in the future.

**Disclaimer**

*DISCLAIMER: While all care has been taken in the preparation of this material and the entire FV Resource Library, no responsibility is accepted by the author(s) or Football Victoria, its staff, volunteers or partners, for any errors, omissions or inaccuracies. The material provided in this resource has been prepared to provide general information and guidance only. It is not intended to be relied upon or be a substitute for legal or other professional advice. No responsibility will be accepted by the author(s) or Football Victoria or its staff, volunteers or partners for any known or unknown consequences that may result from reliance on any information provided in this publication.*