“Are You Covering Your Club’s Assets?”

Studies indicate an average of 65% of all fixed asset data is incomplete, inaccurate or missing. I am big on numbers and that’s a big number. How could this be? Many club accountants and managers claim they rely on the records of their outside CPA. Wrong answer! The outside CPA typically maintains the records based on acquisition and disposal information provided by club personnel. When was the last time you or your outside CPA completed a fixed asset inventory? I have been introduced to a number of well-established clubs where the answer is “never.”

Okay, so why make this a priority? Prevention of insurance overpayments and reduction of property tax burdens are the primary motivators. You can’t overlook the need to deter theft as well. But these days most all internal control weaknesses and financial risks should be a priority.

Inaccurate fixed asset data seems to result less from the acquisition process than from a disposal. It is likely that most all clubs have a “ghost asset” problem - assets that no longer physically exist having been lost, damaged or disposed of yet remain on the books. Research indicates that 10% to 30% of the fixed assets recorded are in fact ghost assets. These ghost assets negatively impact everything from depreciation schedules to insurance payments, personal property tax rates and even financial planning. Our research indicates this invalid data translates into significant and unnecessary personal property tax overpayments of 8% to 20%.

Nothing is more critical to effective management of fixed assets than conducting a fixed asset inventory. Without it, no amount of added processes, controls, or correct calculations can ensure the accuracy and reliability of fixed asset accounting. Too cumbersome you say? For some clubs, automation of the tracking and reconciliation through the use of software applications and bar-code technologies is a good solution.

Properly maintaining your fixed assets is also critical to efficient operations. Scheduling preventive maintenance, ensuring the availability of replacement parts – these tasks and more depend on the availability of accurate information about the maintenance status of your assets. Software applications are assisting clubs to ensure that accurate, complete maintenance information is readily available to the people and systems that depend upon it.

For certain clubs, especially those with large fixed asset inventories, there can be significant additional tax advantages from “componentizing” their fixed assets. This is commonly referred to as “cost segregation.” Since each taxing jurisdiction has established asset categories with varying taxable values and depreciation rates, certain components (such as software or training costs wrapped into the overall equipment cost) may not be taxable at all. As a result, recording fixed assets component-by-component instead of as a bulk entry can have significant tax benefits. Third-party consultants can provide proven methodologies and expertise in strategically componentizing fixed assets to provide dramatic tax savings now and over the life of your assets.

Finally, the need for fraud prevention controls has been in the spotlight as of late. Without regular inventories or at least the appearance of tight controls, how can you be certain that equipment, computers and other portable club assets will not continue to mysteriously disappear?

Some overall objectives when creating a proper control environment:

- Secure accurate, detailed and strategically classified information about your fixed assets through an annual inventory
- Identify tax-exempt assets and those with reduced tax rates through cost segregation
- Produce a clear audit trail with detailed documentation to support any adjustments
- Implement control procedures to maintain data accuracy, tax savings and insurance coverage year over year

As you settle into your off-season projects, prioritize the importance of regularly monitoring your fixed asset records. You and your dues paying members will be glad you did.

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