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Renovation and Improvement Programs

Completed On Time and On Budget Just the Beginning

PROJECT MANAGERS SUFFER HEART PALPITATIONS WITH EVERY CHANGE ORDER, AND PARALLELS HAVE BEEN OBSERVED BETWEEN TIME DELAYS AND BOUTS OF HYPERVENTILATION.

With all of the attention focused on staying on budget and completing projects on time, equally important considerations in accounting often fall through the cracks – and cracks in construction are rarely a welcome discovery.

So, consider the importance of accounting involvement in any renovation and improvement program and the care and maintenance of property and equipment records.

While this subject is not the most provocative in the boardroom, the intention here is to stimulate some thought about the craftsmanship behind property, equipment and related depreciation records. Clubs across the country spend millions each year on improvements to facilities as well as furniture and equipment for clubhouses and golf courses.

Add to this the fact that property and equipment commonly forge together as the largest asset on the balance sheet. Meanwhile, clubs often fail to dedicate proper attention to the records that support these expenditures.

Blame for this failure is abundant enough to be shared. For some clubs, independent accountants maintain property records and depreciation with little input or involvement from club personnel.

This is problematic as external accountants cannot maintain independence if they prepare the work that they subsequently audit while clubs abdicate responsibility for the outcome.

A second and perhaps more significant explanation for inadequate attention to detail are the time and effort required to maintain dependable records in an atmosphere of cost cutting.

Requirements for adequate records include:

1. Sensible policies that distinguish between what is capitalized or added to asset accounts and items that are operating expenses.

2. Records with sufficient detail to identify what and where the depreciating asset is so that it can be written off without much research upon disposal or replacement.

3. Policies that require approval before pieces of furniture and equipment are replaced or disposed. Such polices may impose a monetary threshold and require levels of approval. An accounting form should be designed to document disposals.

4. For "movable" items of furniture and equipment and particularly items maintained in remote locations, such as maintenance areas, annual physical inventories should be taken and observed by accounting personnel. These inventories should be compared to the furniture and equipment records maintained in accounting. Inventories should also be taken in the kitchen, dining room and bar areas.

5. Buildings, and building and land improvements should be recorded in such a way that depreciable items that will ultimately be replaced can be identified to be written off upon disposal. Examples of such items include interior decorating elements, carpeting, drapery, electrical and mechanical items, tee and green areas, bridges, and drainage and irrigations systems.

6. Property records should be maintained using software specifically designed for this purpose rather the electronic spreadsheets, which continue to be commonplace.

7. As a best practice, original invoices for property and equipment as well as construction records for renovation and improvement programs should be maintained as permanent records until replaced or disposed. These records should be

maintained close at hand for reference purposes rather than stored away with historical records.

Having laid the foundation for quality property and equipment recordkeeping and procedures, it is time to construct a methodology of accounting for renovation and improvement programs.

Several essential themes exist when accounting for renovation and improvement programs.

Club accounting involvement is critical from the inception of the project.

The chief financial officer or controller must understand the full scope of the project at hand.

While a discussion of the financing aspect of the project is not a consideration in this particular article, accounting personnel must consider the timeline for construction and when contractor payments are due to avoid surprises.

Detailed budgets should be prepared to cover every element of the project.

The budget should track the asset type as well as the contractor performing the work or supplying the items of furniture, fixtures or equipment.

If a general contractor is involved, the contract budget, which describes the contract's various elements, will provide the detail for later recording in the property and equipment records.

Budgets for professional fees of engineers, decorators, architects and other disciplines should also be included in the master budget. Professional fees and other "soft" costs will be allocated to the individual asset categories at the completion of the project.

Additional consideration should be given to the internal controls over approval and payment of the abundance of additional invoices associated with a construction and renovation project.

Whether a club uses the services of an independent project manager or simply establishes additional internal control policies and procedures, no invoices should be approved for payment until club management is satisfied that each stage has been satisfactorily completed according to specifications.

A director of finance or controller for the club should design the procedures, which should ideally be put in writing and approved by the general manager, club treasurer and finance committee.

Should the project be financed by a construction loan, accounting should be responsible for preparation of the construction draw documentation and work with bank representatives to coordinate the release of the funds.

Accounting representatives should also observe the receipt and installation of furniture and equipment, which will assist them later when recording and describing the new assets in the property records.

If the project involves replacement of portions of the building, building improvements, land improvements and other assets, accounting should then identify the assets being replaced in the accounting records to account for the disposal appropriately.

Estimates are appropriate if the cost of the items to be replaced cannot be identified.

If items of furniture and equipment are to be disposed, clubs might consider offering furniture and decorative items to the membership – perhaps in a silent auction that also creates an opportunity for members to gather and become more engaged.

Periodic reports to the board should be made on the progress of the project.

This report should be a schedule that reflects the budget, payments-to-date and costs required to complete the project.

It is advisable to prepare this report monthly and provide a summary to the membership via a website or other regular communication.

As a parting thought, consider the care and maintenance of club facilities.

Maintaining the quality of facilities at the club is a vital competitive advantage in the contest to attract new members.

Now is also a great time to obtain bank financing in light of historically low interest rates and renewed interest by banks to loan money to finance capital projects.

The borrower should anticipate increased scrutiny in the loan approval process and during the repayment period with respect to compliance with loan covenants.

Subsequently, maintaining the financial condition of the club is of critical importance. **BR**

Bob Salmore is a director with McGladrey, the nation's 5th largest provider of assurance, tax and consulting services. He has more than 30 years of experience in providing audit, accounting and operations consulting to the hospitality and club industries. Bob manages approximately 50 annual financial audits of private clubs and is seen as a leader in his service to the industry. Bob can be reached at bob.salmore@McGladrey.com or (561) 697-1785 / (800) 966.0428.