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PRIVATE CLUB PRACTICE GROUP

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A Message from Ned and the Private Club Team

What you need to know about insurance recoveries

This past year has had its share of severe weather events, particularly in the Northeast. In addition to dealing with the normal Club issues of member service, financial constraints and capital equipment needs, we have had to deal with hurricanes, tropical storms and severe snow storms. The aftermath of these catastrophic situations has caused Clubs to spend lots of time dealing with insurance companies—filing claims and looking to recover monetary damages for their losses.

To ensure a smooth recovery process, I suggest several courses of action. First and most importantly, be sure to document as much as possible. The more information you have to support your insurance claim, the more success you will have in recovering damages from your insurance company. This includes photographic documentation and written notes from Club personnel. Photos are tough to refute and will be very helpful in your claim. Examples include tree, building, golf course, fire and water damage or spoiled food.

If you have any questions regarding insurance recoveries processes and preparation, please don't hesitate to contact me.

See you at the Club,

Ned McCrory, CPA
Principal, Private Club Practice Group
Batchelor, Frechette, McCrory, Michael & Co.

INSURANCE RECOVERY TIPS:

- Document, document, document. Acquire and save as much credible evidence as possible
- Compile photographic evidence of your property before and after the damage or loss
- Implement a fixed asset inventory system, identifying every material piece of equipment with a tag displaying an asset number
- Save original invoices for all fixed assets and a corresponding photograph for each item
- Cross reference your fixed asset inventory to your depreciation schedule to improve success and dollar amounts obtained from your insurance company

Ned McCrory chats with Attorney Robyn Stowell during a break at the January 2012 Club Tax Network annual conference in Palm Beach Gardens, FL

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Treatment of Involuntary Conversions

When you have insurance proceeds in the form of recoveries, you have an involuntary conversion. You didn't choose to (hence why it is involuntary), but you ended up "selling" those Club assets to the insurance company in exchange for an insurance recovery. So you may have had a gain. How is this handled? It depends on what the proceeds are for. In situations where the proceeds are from spoiled food, the cost of the food lost should be equal to the recovery, so no gain to worry about.

What about the situation when the Club recovers $150,000 for destroyed and damaged trees and elects not to replace them? In that situation, the Club probably has a taxable gain on the difference between the proceeds of $150,000 and the cleanup costs of perhaps $10,000. The $140,000 gain can be taxable to the Club if the proceeds are used to fund normal operations. However, if the Club is a 501(c)(7) tax exempt Club, is able to utilize Section 512 of the Internal Revenue Code and reinvest the proceeds in capital items for the Club between one year before the "involuntary conversion" and three years later, then tax on this gain can be avoided.