

# WHY APPRAISALS?

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IT WAS not until 1927 that country club managements generally became cognizant of the many benefits that accrue from a certified appraisal, and it has only been in the last several years that appraisers have been engaged very extensively for making appraisals of country clubs. A certified appraisal is an accurate, authentic, impartial itemized statement of the value of all physical assets based on replacement costs less actual accrued depreciation, as of the date of the report. It is put in book form and so classified, indexed and arranged that instant reference can be made to any one item or totals by floor or building, as may be desired.

The report is generally prepared in triplicate, the appraisal company retaining the triplicate copy together with all original field notes and sketches in its vault for the further protection of its client in case the two copies delivered become lost, destroyed or mislaid. A map of the properties is furnished with the report if buildings are included in the appraisal. This map is drawn to an appropriate scale showing type of construction, height, kind of roof, size and location of the various buildings, fences, walks, parking lots, stand tanks, platforms, etc. Such an appraisal provides the client with authoritative values and drawings and insures a safe and sure basis for the correct placing of fire insurance in compliance with co-insurance or other specific clause requirements and prevents over-insurance as well as under-insurance.

In the event of fire or other insurable catastrophe, it provides the client with an accurate proof of loss to be submitted to the adjuster, and assures prompt and satisfactory settlement to both the insured and insurer.

Capable adjusters of today will not accept any appraisal, regardless of the standing of the company that made it, without first checking and satisfying themselves that the report was prepared by an appraiser or appraisers thoroughly experienced in their profession. An ap-

praisal is only as good as the experience of the men that made it.

Country club appraisals, consisting of numerous classifications as clubhouse furnishings, linens, china, silverware, glassware, uniforms, etc., require appraisers who are thoroughly experienced and who have specialized in this type of report.

For instance, there are certain classifications in a manufacturing plant that are set up under the heading of *Equipment, (mechanical)*, whereas these same classifications in an appraisal of a country club are shown as building appurtenances under the head of *Buildings*; thereby effecting a saving in insurance premiums, because policy requirements for clubs are different than for industrial properties. Also, an experienced appraiser of country clubs will show an accurate, detailed description on every piece of furniture, linen, rug, china, silverware, etc., which, in the event of being totally destroyed by fire, proves to the insurance adjuster that the value shown in the appraisal is correct for the items as described.

If an appraiser lists, "One 6-ft. upholstered sofa, value \$225," the adjuster would question this value because he could buy any number of 6-ft. upholstered sofas for considerably less than \$225. However, if the sofa was described correctly in detail, giving the kind of covering such as mulberry glazed percale, the kind of cushions stating if they were reversible, and had coil springs, whether the arms had coil springs, kind and style

At last there's a golf course where you're bound to be in Luck with every shot. Luck, a village of 700 inhabitants in northwestern Wisconsin, has opened a 9-hole course, W.P.A.-built. The course is laid out on 72 acres bordering Big Butternut lake from which the green and tee water supply is secured. Tom Vardon designed the course. It is interestingly trapped. Kenneth Graves, formerly at Hillcrest and Keller courses in St. Paul, is supt. A municipal recreation ground and tourist camp adjoins the Luck course.

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of frame, etc., the adjuster would know immediately that the item was valued correctly; and that the report was no doubt compiled by one who knew his business. After some further examination he would undoubtedly accept the complete appraisal without further delay.

On the other hand, if he found meager descriptions that did not permit a fair judgment of the values shown, he would be justified in assuming that the information furnished was inadequate to support the values shown and reject the appraisal, requesting the insured to get up a correct and detailed proof of loss. This would cause considerable delay, dispute and expense.

### Quick Payment for Loss Is Advantage

It is not only the amount of insurance you collect, but the promptness in securing settlement that measures the actual cost of a fire. There is no single thing that could work such a hardship as an inadequately covered insurable loss or a long, drawn-out arbitration of such loss in the absence of indisputable proof and itemized records.

It is very important that the club officers and directors know the exact value of the club's physical assets as they are responsible for the safe and economic management of the club properties during their tenure of office. They should be able to show at any time a complete list of all permanent items of furniture, linens, dishes, silverware, golf course equipment, etc., not only for insurance purposes but also to submit to the incoming administration for its examination and for its record. A certified appraisal not only furnishes this information, but it also shows the worth of the property, establishing net insurable values in accordance with co-insurance or other specific requirements of existing insurance policies, segregating or dividing values in different locations and groups which take various insurance rates, in order to obtain the maximum amount of insurance for the minimum premium.

The most difficult part of an appraisal, one that requires intelligence and experience, is the determination of the actual amount of accrued depreciation. The factors entering into this depreciation are so many and varied that ordinary book-keeping is inadequate to depict conditions accurately and fairly. The life of every

Less liquor is consumed at country clubs since repeal, according to observation of W. C. Poertner, general mgr. of Winged Foot. However, bar sales at Winged Foot this year are about 1½% ahead of 1937. Food sales are about 9% higher.

Switch of liquor supply from the bootlegger to the purveying authority responsible for country club selection of liquor stocks has had an effect in reviving the attention of members to fine cuisine, Poertner says.

Intoxication of members and guests, a serious problem for managers during prohibition, now has been reduced to a minimum.

item of physical assets (buildings, furniture, and other equipment) is dependent upon one or all of the following factors: wear and tear; deferred maintenance (neglected repairs); age; inadequacy; and obsolescence. Before arriving at the amount of actual accrued depreciation, consideration must also be given to the amount spent for maintenance and repairs, the construction, nature and present condition of the buildings and equipment, production rate, excessive and peculiar use of certain equipment, idle periods of the property in question, etc.

### Importance of the Co-Insurance Clause

Many executives buy fire insurance without knowing just what their obligations are in connection with the co-insurance clause. The most important danger in co-insurance lies in ignorance of the value of the property destroyed.

After a fire occurs, it is not the friendly insurance agent, to whom you have been paying the insurance premiums, that settles or estimates the amount of your damage; but an adjuster who possibly you have never seen before, who is only interested in arriving at the value of the property in strict accordance with their policy provisions.

Do not mistake these remarks to infer that the insurance companies have any desire to avoid paying for losses that can be clearly proved. Their business is the payment of losses in accordance with their contract.

As an illustration of how the co-insurance clause operates, let us assume that the book accounts show a net insurable value of \$200,000 and under an 80 per cent co-insurance clause insurance is placed for \$160,000. A partial loss of \$90,000 occurs. If the insured can prove that the \$200,000 net insurable book value is ac-

tually the reproductive value less actual accrued depreciation at the time of the fire, then he will receive the \$90,000 loss in full. But, if the adjuster is able to demonstrate that the property was worth more, say \$300,000, the insured immediately becomes a co-insurer to the extent of \$30,000 (1/3) of the loss; as

Value of property when loss occurred .....	\$300,000
Insurance carried .....	160,000
Insurance required (80 per cent of \$300,000).....	240,000
Partial present fire loss.....	90,000
Insurance company pays....	60,000 (2/3)
Cost of fire to the insured..	30,000 (1/3)

A certified appraisal of the property would have shown a net insurable value of \$300,000 and if insurance coverage had been increased to the required \$240,000 when the appraisal was made, the \$90,000 loss in full would have been paid instead of \$60,000. The \$30,000 more that would have been received in the settlement of the loss represents approximately seventy-five times the cost of a certified appraisal covering a property about this size.

#### There Is Weakness in Book Value Method

If no certified appraisal has been made, the amount of insurance to be carried must be determined from book values, insurance engineers estimate, or haphazard guess. The book value method is used more generally than the latter two. Fire insurance, according to the insurance policy, is based upon replacement value less actual accrued depreciation at the date of loss, and not upon cost at date of purchase as shown in the books of accounts. Also, the usual clause in all standard fire insurance policies reads, "and the insured shall furnish, if required, verified plans and specifications of any buildings, fixtures or machinery destroyed or damaged." The book values do not show this information nor do they show furniture or any other equipment segregated by buildings, floors or any other division of fire risks, such as non-burnable items.

A certified appraisal will show all these segregations, distinctly separating the burnable items from the non-burnable (insurance exclusions) items which enables the payment for protection only on such items as are subject to fire hazard. It classifies and segregates fire risks to determine exactly how much insurance should be carried on any building, fixtures,

machinery or other equipment. The risks are therefore properly classified as to insurance rates, and minimum rates applied to low risks instead of allowing certain high risks to penalize the insured with a high rate on the entire property.

#### Must Add Factor of Market Fluctuations

Nor do the books of accounts take into consideration fluctuations in market prices since the date of purchase. Physical items sold or destroyed often remain in the books of accounts, and, most important of all, depreciation accumulated on the books of the assured, regardless by which method computed, does not represent the actual accrued depreciation as required by the insurance companies in the event of loss.

Also, suppose \$500 was spent in repairing a roof on one of the buildings. The books of accounts would undoubtedly show this item (of \$500) as expense for maintenance and repairs, just as they do on all similar items, and in ordinary accounting methods this would not affect the depreciation account on the books. An appraisal would give effect to this \$500 expenditure when figuring the actual accrued depreciation on this building and thereby show a larger net insurable value. In other words, the appraisal would pick up all such repairs and maintenance under the "per cent condition method" which is by inspection, giving consideration to all factors concerned.

Therefore, one can readily see that book values are of little help in the placing and collecting of fire insurance for the obvious reason that they do not comply with the requirements of the insurance policy. In nearly every case where book values have been taken as a basis for settlement of claims, the insured has been compelled to assume a considerable portion of the loss when a fire occurred due to the fact that the books of the assured did not furnish the actual facts.

When a serious fire occurs, valuable records (some perhaps invaluable) are often destroyed. These records cover not only the cost of the physical assets, but also the evidence of what these assets were. If an appraisal had been made of these properties, the proof of loss would be safely stored in the appraisal company's value, even though the insured's copy of the appraisal had been lost in the fire.

This is not intended to discredit the

accountant. His audits are as necessary as appraisals. All country clubs, industries, utilities, and other organizations in the possession of physical properties, should have periodic audits. However, the appraiser makes a thorough actual examination of the physical assets, while the accountant depends upon the book of accounts and records as being correct.

We often find that a new piece of equipment has been purchased and accordingly entered on the records, but the piece of equipment dismantled or discarded and replaced by this new piece of equipment still remains part of the records, thereby creating inflated values.

### Accountants Like Aid Appraisal Gives

It is a significant fact that modern accountants now look to the certified appraisal as a valuable aid to successful accounting practice. It gives them knowledge for property accounts that can be secured in no other way.

Monthly and annual statements are almost certain to be misleading unless the cost of replacements and net sound values of the property are known. This is due mainly to the fact that many items of additions and improvements are charged to the expense account when they should actually be capitalized.

Also, such items as freight, cartage, wiring, piping, etc., required in the installation of certain equipment have been charged to expense when they should be figured as a part of the value of that equipment.

A great many country clubs, not being subject to income tax, show full investment or cost values for buildings and equipment on their books, with the result that membership value is calculated at an inflated figure.

In connection with a correct certified appraisal, proper "book" and "cash" reserves can be set up in a separate report. The cash reserves set up covers such short-lived items as linens, uniforms, glassware, dishes, silverware, kitchen utensils, furniture, general maintenance, etc. This reserve, accumulated monthly or yearly, is budgeted to the various divisions such as clubhouse, restaurant, bar, locker-rooms, grounds, etc., so that when new equipment is necessary the money will be available to meet the expenditure. In this way an extraordinary expenditure in any one year

will not work a hardship on the club's finances.

If detailed book figures are not available, the calculations necessary to establish these reserves are based on the total book values, "adjusted" on the basis of the values shown in the appraised report. Lump sum figures covering expenditures for buildings and furniture, golf course machinery and equipment are also allocated to the individual item on the basis of appraised values.

Some of the largest and most prominent golf clubs in the country, having been appraised, have effected considerable savings in their insurance premiums, in addition to the other benefits.

### After First Year, Costs Are Nominal

Up-to-date appraisal values can be maintained year after year, once the original report is compiled in detailed form. Every year a revision or supplemental report is furnished which gives effect to all physical additions, deductions and transfers, price fluctuations and accruing depreciation or appreciation, since the date of the last report. These changes are checked by an engineer who visits the property reconciling these changes with the previous appraisal, after which all values are adjusted to coincide with the then existing conditions. Before arriving at the adjusted amount of accrued depreciation, all expenditures for repairs, renewals and maintenance are taken into consideration.

A certificate is furnished with the revision report making available authentic up-to-date values for insurance and accounting requirements. The cost of this yearly service is nominal, running from approximately 15% of the cost of the original appraisal on large properties to approximately 25% on small properties.

Some appraisal companies render the revision service furnishing a certificate of valuation without visiting and examining the properties. Reliable appraisal companies will not prepare such a report because a report prepared in this manner is worthless for insurance or accounting. Unless the property is examined personally by the appraiser such items as wiring, piping, installation expense, etc., which are charged to "expense" in the book accounts, will remain as expense items and will not be valued as they should be for insurance coverage.