

Certified Appraisal Important To Golf Club Management

By FRED A. BEILMAN

Secy.-Treas. — Appraisal Engineering Corporation

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 duplicate, the appraisal company retaining the duplicate copy together with all original field notes and sketches in its vault for the further protection of its client in case the original copy delivered becomes lost, destroyed or mislaid. A plat of the properties is furnished with the report. This plat is drawn to an appropriate scale showing size and location of the various buildings, fences, walks, parking lots, etc. Such an appraisal provides the client with authoritative values 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.

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 those for industrial properties. Also, an experienced appraiser of country clubs will show accurate descriptions of furniture, linens, rugs, 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 \$325," the adjuster would question this value because he could buy any number of 6-ft. upholstered sofas for considerably less than \$325. However, if the sofa was described correctly in detail, giving the kind of covering such as glazed percale, damask, chintz, etc., the kind of cushions stating if they were reversible, down filled, kind and style 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.

Quick Payment for Loss 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 insurance 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 require-

ments 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 bookkeeping is inadequate to depict conditions accurately and fairly. The life of every 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, excessive and peculiar use of certain equipment, idle periods of the property in question, etc.

Importance of Co-Insurance Clause

Many executives buy fire insurance without knowing just what their obligations are in connection with the co-insurance clause. It is exceedingly dangerous to carry co-insurance without a knowledge of correct property values.

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 property 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 book value is actually 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 ($\frac{1}{10}$) 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 ($\frac{2}{3}$)
COST OF FIRE TO	
THE INSURED	30,000 ($\frac{1}{10}$)

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 many times the cost of a certified appraisal covering a property of this size.

Proof of Loss

IN THE EVENT OF AN INSURABLE LOSS, RELIABLE APPRAISAL COMPANIES WILL ASSIST THEIR CLIENTS, WITHOUT CHARGE, IN PREPARING A PROOF OF LOSS.

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 standard fire insurance policies read, "The insured shall give immediate written notice to this Company of any loss, FURNISHING A COMPLETE INVENTORY OF THE DESTROYED, DAMAGED AND UN-DAMAGED PROPERTY AND AMOUNT OF LOSS CLAIMED". 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, furniture and 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.

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," 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 reflect 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 vault, even though the insured's copy of the appraisal had been lost in the fire.

This article is not intended to discredit the accountant. His audits are as necessary as appraisals. All country clubs, industrials, 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 Appraisal

It is a significant fact that modern accountants 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 incorrect 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 shortlived 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 appraisal 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 supple-

mental 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 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. Such items as wiring, piping, installation expense, etc., which are charged to "expense" in the book accounts, are capitalized in the revision report.

A certificate is furnished with the yearly 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.

New Jersey Turf Field Day

Attendance was back to pre-war figures at the New Jersey Turf Field Day held at N. J. Agricultural Experiment Station in New Brunswick on Aug. 30th. During the war years, most of the turf experimental plot area was discontinued due to lack of time and help, and also, to put more area into food crop studies. Turf plots are now back to original size, with addition of new strains which have been developed.

The Field Tour was conducted by Ralph E. Engel and J. C. Harper. Items of interest included: Bent and Fescue strains; lawn and fairway grasses, nurse grasses, fertilizers and application time for lawn and fairway turf, methods of cultivation for fairway turf, 1948 and 1949 plantings of the new strain U-3 Bermuda grass, time of cultivating bent turf, plantings of Seaside and Colonial bent, time effect of bentgrass fertilization, rates of N.P.K. on bent, fungicide trials, bents under study for fine turf, B27 bluegrass strain, crabgrass plots. The Westpoint Lawn Products Co. demonstrated the "mole drain" turf plow. This is an American adaptation of a device which has been used in England for many years.

U-3 Bermuda grass was suggested for trial use on tees and vegetative material was offered to those who wished to use it experimentally. A total of 20 individuals obtained stock for planting. In addition an appreciable number of the group had previously received this grass. These plantings should supply valuable information as to the management of this grass.

The N. J. Greenkeeping Superinten-

dents' Association as sponsors of the N. J. Turf Field Day, held their monthly meeting in the evening. Visitors from Penna., Long Island, Connecticut, etc. were present to hear Dr. Fred V. Grau, Director of U.S.G.A. Green Section conduct a discussion on "Poa Annua Control." During his lecture, Dr. Grau suggested that experimentation may show Poa annua to be valuable in combination with U-3 Bermuda or with Zoysia.

Berg Heads Women Pros' New Organization

Patty Berg has been elected pres. of recently organized Ladies' PGA. Charter members include Mildred (Babe) Zaharias, Louise Suggs, Betty Jameson, Helen Hicks, Helen Dettweiler, Marilynn Smith and Betty Mims White. Fred Corcoran has been engaged as Tournament Director for three years. Girls have formulated a players' agreement similar to that of PGA. Corcoran is working on a tournament schedule of Open events which, it is believed, will also stimulate women's amateur major competition.

First event of the new association was U.S. Ladies' Open at Prince Georges G & CC, Landover, Md., Sept. 22-25, with Louise Suggs the winner.

Possibility is that the new organization will seek affiliation with PGA of America. Men pros' organization has shied off from coed proposals in the past.

Plan Repair Work and Supply Orders for Early Delivery

Winter months are planning months. Plan to get machinery repaired early, and order supplies early.

Some greenkeepers spend the winter months putting machinery in condition for the coming season. That's a good plan of operation. Some clubs have to depend on a repair shop to do their work. In that case, get machinery in now. Too often this is neglected with the result that the repair shops are swamped during the spring months, and some fellows who put it off will not have machines repaired in time for spring work. By getting those machines in to the shop early, it helps the shop and above all, it helps the greenkeeper.

Another idea that will help is that of ordering supplies, such as fertilizers, fungicides, etc. early. This helps the supplier to get an idea as to what he has to have on hand for early delivery. It's important that enough fertilizer is delivered in time to make those early April applications promptly.

—Iowa Newsletter