

February — 1962

## Setting Up Depreciation Reserves Stabilizes Dues Structure

**Manufacturers Suggest Ideas for Prolonging Life of  
Equipment; Outline Schedules for Its Replacement**

**I**N the last ten years or so country clubs generally have adopted a more businesslike attitude in their equipment depreciation and replacement policies, but there still is plenty of room for improvement where these vital things are involved.

There is one serious drawback to the replacement system. According to persons who are close to the equipment picture, depreciation often is charged off on a regular monthly or annual basis. Funds are put in a reserve for the purchase of new machinery when needed, only to have them raided by another department when some supposedly urgent purchase has to be made by it. It hardly is necessary to point out that while the club may profit because foresight was shown in the setting up of perhaps at least one reserve, the maintenance dept. is the loser unless some provisions are made for reimbursing its depletion fund at a later date.

Clubs that do not set up annual reserves for depreciation of equipment as well as clubhouse furnishings and fix-

tures, pool renovations, deterioration of buildings, etc., are following a short-sighted policy. While it may show a profit for a period of perhaps two or three or four years, it ultimately ends in a kind of financial panic. This is especially true if the machinery breaks down in the same year that buildings start to fall apart and the clubhouse furniture begins to disintegrate.

### **Intangible But Real**

When some kind of a depreciation system isn't installed at a club," says one accountant, "the treasurer usually is the only person who is completely aware of how frightening the financial picture may be. Nobody else seems to worry about it, least of all the board. If the treasurer tries to explain the doleful situation, the directors rebuff him by pointing to the profitable operations of recent years. What they don't realize is that depreciation, even though it is intangible, is just as real as any other expense.

"From the member's standpoint," the accountant continues, "a depreciation

## : A Golfdom Survey :

policy that takes into account every item that will have to be ultimately replaced and sets aside an appropriate reserve for it, stabilizes the dues structure and conceivably can do away with assessments. It irons out the peaks and valleys in expenditures and consequently keeps dues on an even plane over a period of years. There are no boom or bust years when such a policy is followed."

### Members Have Objections

There are, however, at least two major objections on the part of members to the depreciation theory. If, for example, they build a new clubhouse, they can't see putting money into a building depreciation fund that may not be touched for at least ten years. What they would be doing in effect, say some of these people, is providing for a rather distant future when they may no longer belong to the club. Even at older clubs there are objections to building up reserves that may redound only or largely to the benefit of future members. These people prefer to keep things on a "pay as you go" basis.

A second objection to building up a depreciation reserve is that the club management or board may find the fund a temptation to spend money recklessly or needlessly.

So far as course machinery is concerned, Oscar Borgmeier of George A. Davis, Inc., Chicago, points out that making large outlays for equipment in a single year may place unfair restraint on the greenkeeping dept. and result in inefficient maintenance. "If it is seen that a large amount of money has to be spent in 1962 to replace worn our tractors and mowers," says Borgmeier, "and there is absolutely nothing in the reserve fund, a board may balk at spending so much money at one time. It may decide to defer the purchase of some sorely needed equipment until next year, with the result that the supt. is seriously handicapped. If the upkeep of the course visibly declines it is hardly necessary to mention who is made the scapegoat."

Borgmeier, one of the real veterans of

the equipment business, is convinced that clubs should operate on an orderly basis so far as depreciation is concerned because it makes replacement of machinery so much easier. In many cases, he adds, it can do away with the borrowing of money to buy equipment and the subsequent payment of high interest rates.

Beverly CC of Chicago is cited by Borgmeier as having one of the best equipment replacement programs in the Midwest. About 10 years ago it was decided to capitalize its course machinery at \$30,000 and make provision for its replacement over a period of ten years. Each month, \$250 was put into a reserve fund and when it was necessary to either buy new equipment or make a major overhaul of the old, it was only necessary to tap the fund. At no time since the program was set up has Beverly found itself hard pressed to keep up with its machinery needs.

### Suggested Depreciation Schedule

Jacobsen Manufacturing Co.'s vp of sales, Charles A. Livesey, made a special survey among supts. and dealers for Golfdom to determine a depreciation schedule on the Model F tractor with wing lift hydraulic system and 7-gang mower. Based on these things — average mowing time - 6 months, good maintenance policy, average cutting conditions and an experienced operator — Livesey arrived at the following formula:

1-5 years — 30 to 50 per cent;

5-10 years — 50 to 70 per cent.

Frequency of repairs on the Model F tractor amounts to:

1-2 years — no major repairs;

2-5 years — overhaul (subject to use and care): \$125;

5-10 years — one complete engine overhaul; \$250.

Repair frequency for the wing lift and hydraulic system with 7 gang mowers is pegged at these figures:

1-2 years — Mowers sharpened once each year: \$18 per unit;

3 years — Replacement of bearings, grease seals, gaskets, etc.: \$15 per unit;

7 or 8 years — Replacement of mower

(Continued on page 83)

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## Depreciation Reserves

*(Continued from page 20)*

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Livesey points out that supts. and dealers feel that disregarding depreciation schedules or formulas, the actual depreciation of tractors, mowers, etc. is largely contingent upon the treatment these units receive and how often they are checked and repaired. Some supts. added that they feel the best time to trade in tractor equipment is about every seven years, enabling them to avoid major overhauls and getting what they consider to be the best deal, pricewise. In addition, the supts. say that from an efficiency standpoint, it isn't advisable to keep tractors more than seven years.

### Cites Finance Plan

According to J. M. Kaufman, sales promotion manager for Toro Manufacturing Corp., his company is presently engaged in a thorough study of repairs, salvage values and other factors pertaining to depreciation and replacement, but it will be some time before it is completed.

However, in 1960, when Toro was setting up its fleet financing plan that

covers both purchases and leases, a payment and leasing term of from 36 to 40 months was decided upon. The reasoning behind this is that the best economical period of useage of grass cutting machinery and allied units is three years. After this, the high cost of repairs to the units, and their loss of efficiency, generally make it unwise not to invest in replacement equipment.

In the opinion of Frank L. Lindig, Jr., pres. of Lindig Manufacturing Co., Inc., St. Paul, when a depreciation rate is computed probably too much emphasis is put on the number of years a piece of equipment should last. What is more vital, he declares, is how many hours will it be used and what kind of servicing will it be given. "When a machine is purchased," Lindig says, "a replacement budget should immediately be set up for it. This budget should be based to a certain extent on the manufacturer's estimate as to how long the machine will give economical service. But it is important to find out from the course supt. how many hours a week or month the machine will be used, and to what kind of usage it will be subjected. You can't arbitrarily say that any piece of

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equipment has a life expectancy of say five or ten years. If it is used twice as long each day at Course A as at Course B, then the expectancy is going to be cut in half at the former course."

### Urges Keeping Daily Log

In conjunction with the replacement budget, Lindig feels that a daily log should be kept on the use and servicing of more expensive machinery so that it can be determined whether or not it is going to give good service as long as was originally thought. At the same time, the replacement budget should be flexible enough to cover important fluctuations in the life expectancy of the machine.

When it comes time to replace a machine and there is hesitancy on the part of the club to appropriate the money to do it, Lindig suggests that these things should be considered:

How much will it cost to buy new parts for the old machine, and how much will it cost to install them?

How much does it cost in man-hours to hang on to worn-out equipment?

Will the above costs more than offset the cost of a new machine in a

month's or year's time?

Clarence D. Hunter, assistant sales manager of Hardie Manufacturing Co., Inc., Wilkes-Barre, Pa., which makes spraying equipment, advocates following closely the servicing recommendations of the manufacturer to prolong the life of any piece of equipment. "A good deal of education still is needed in this respect," he declares.

Where spraying equipment is involved, frequent flushing along with an occasional thorough cleaning and proper winterizing greatly extends its life. It is recommended that this kind of equipment be traded in every five or six years and an annual depreciation of 20 per cent is suggested in writing it off.

Hunter, incidentally, points out that too many courses don't have the services of a first-class mechanic and that it probably costs them money. "The supt., or the person who is in charge of repairs and maintenance of machinery, probably is a turfman at heart," he says, "and considers this work to be of a secondary nature. He's not quite as adept as a Class A mechanic and, as a consequence, isn't capable of keeping



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all the equipment in A-1 condition. He shouldn't be criticized because, under the circumstances, he undoubtedly is doing a good job. What the club that employs him should do," Hunter concludes, "is weigh the cost of hiring a regular or part-time mechanic against what it costs to go along under the present setup."

### Hogan Expands Bag Line

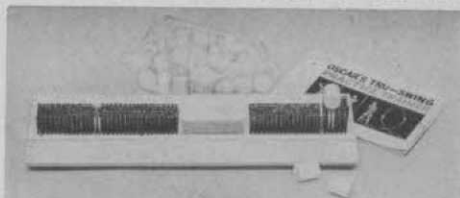
Increased demand is resulting in the expansion of the Ben Hogan golf bag line for 1962. It now offers 11 models, including bags



for women and Juniors, plus a selection of carryalls and shag bags. Burton Mfg. Co., Jasper, Ala., is manufacturing the bags to the design of Ben Hogan. The new styles offer an unbroken line in design that has been developed by innovative brace fastenings. This construction removes the stay and stay cover from the outside to the inside of the bag. Models are available in kangaroo, cowhide and steerhide with matching accessory bags as well as in nylon and washable vinyl-coated cotton duck.

### Tru-Swing is Latest of Indoor Practice Devices

Recently introduced is Oscar's Tru-Swing practice system which, according to Automation Development, Inc., Union, N. J., enables



the player to get in his practice cuts in half the floor space of the average living room. With the set are 24 "looping practice" balls that go straight, hook or fade, depending on how they are hit, a practice tee that fits in a dresser drawer, and a 16-page trainer booklet, written by Claude Harmon, Winged Foot pro. Information about the practice set can be obtained by writing to Automation Development.