

## Attachment III

### Equipment and Depreciation

Expenditures for equipment purchases should not be included in the costs used to establish Service Center billing rates. The costs should, however, include depreciation of the equipment. Including equipment depreciation in the billing rates allows for recovery of the purchase cost of the equipment.

#### What is a "Capital" Item?

A Capital Item is equipment that costs \$5,000 or more. The costs for capital equipment must be spread over the useful life (see Attachment IV) of the item, also known as depreciation. If you purchase a piece of equipment that costs less than this, for example a \$300 fax machine, it is not a capital item and must be expensed in the year it is purchased.

#### Calculating Depreciation

The cost of capital equipment can be recovered over the useful life of the asset. To do this, divide the cost of the asset, less a salvage amount, by the number of months or years it will be used. Annual depreciation can be included in the costs used to calculate the billing rate. See the example below.

To see a list of various assets and their useful lives, please refer to Attachment IV.

#### What is Salvage Value?

Many assets will have a value after they have served their useful life. For example, a vehicle has a useful life of five years, but can be sold at the end of that time. To calculate depreciation, take the purchase price less the salvage value and divide the net by the life of the asset.

For example, a van which costs \$20,000, with a salvage value of \$2,000, is expected to last for five years. To calculate depreciation, take the net of the cost and salvage value and divide by the useful life:

$$(\$20,000 - 2,000 = 18,000) \text{ divided by sixty months} = \$3,600 \text{ per year.}$$

At the end of five years, the asset's book value (value remaining) is equal to the expected salvage value. Often no salvage value is expected, meaning the asset will be worthless at the end of its useful life. If this is the case the asset should be depreciated in its entirety.

#### Can Depreciation equal more than the price of the asset?

No. The University may not charge Service Center users more than actual costs incurred.

#### A special note about purchases

Each Service Center has a corresponding Capital Reserve cost center to be used for capital purchases. To calculate the billing rate, we calculate depreciation on existing assets. We are not allowed to depreciate more than the purchase price in order to replace the asset with a more expensive one in the future. Depreciation is limited to the cost of the original purchase, less any residual value.