Introduction to Recharge

Equipment Cost and Depreciation in Recharge Rates:
To Depreciate or Not to Depreciate

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To Depreciate or Not to Depreciate

At UNC, capitalized equipment is defined as tangible property having a useful life of more than one year \(and\) a per-unit acquisition cost which equals or exceeds $5,000.

All capitalized equipment should have an assigned UNC decal; all capitalized equipment is tracked by the University’s Asset Management Office using that decal number.
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For Core Facilities utilizing capitalized equipment in their service offerings, there are a number of considerations when determining whether to include the cost of equipment in your rate structure.

- Is it allowable to include the cost of equipment in your recharge rate?

- If allowable, how is the amount which can be included in the recharge rate calculated?

- What are the requirements for tracking and spending of the equipment depreciation component of the recharge rate?
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- *Is it allowable to include the cost of equipment in your recharge rate?*

Equipment purchased with federally sponsored funds cannot be depreciated.

Much of the research performed at UNC is federally funded. If equipment was purchased using federal funds, the government has already paid for the full cost of the equipment. Therefore, including equipment depreciation in the rates charged to federally funded researchers would be in effect double billing the government.

Identifying the original funding source for the equipment is critical before any consideration of cost recovery!
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- *Is it allowable to include the cost of equipment in your recharge rate?*

Is the equipment used solely in carrying out recharge services?

If the equipment is used solely for recharge services, then 100% of the cost recovery can be included in the associated service rate(s). If the equipment is shared between recharge services and other usage, then only the percent of usage by the recharge facility can be included in the rate structure. There must be a means for accurate documentation of the levels of usage, either by usage log per instrument or another method.
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How is the amount which can be included in the recharge rate calculated?

Since by definition capitalized equipment lasts longer than one year, it would not be appropriate to include the full cost of the equipment in the rates for a single year – this would be overcharging the users in that one year and undercharging users in each successive year the equipment was in service.

Therefore, we expense equal portions of the equipment over the entire span of useful life in order to best match up revenues produced by the use of the equipment to the expense of the original purchase. This is referred to as depreciation: we are using up a portion of the equipment over multiple years, so the cost is also spread over multiple years.
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❖ How is the amount which can be included in the recharge rate calculated?

| $100,000 | Purchase price of equipment |
| − 15      | UNC equipment lifespan      |
| $6,666.67 | Allowable depreciation per year |

Depreciation of capitalized equipment at UNC follows a 15 year straight line schedule. This means that the acquisition cost of the equipment is spread equally over the 15 years of the estimated lifespan.

For example, if a piece of equipment was purchased at a cost of $100,000, we would calculate allowable annual depreciation by dividing the purchase cost by the UNC lifespan to arrive at the annual amount of depreciation expense.
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- **How is the amount which can be included in the recharge rate calculated?**

Using this example, depreciation expense of $6,666.67 is allowable to include in the rate calculation*.

* Please note: this is a simplified calculation for demonstration purposes only and does not account for timing of the purchase or salvage value. Please contact the Office of Research Technologies for assistance with a full calculation.

Now that we have determined whether the cost is allowable for inclusion in recharge rate calculations and the amount of depreciation, there are additional considerations surrounding requirements for tracking and expenditures of the equipment depreciation component of the recharge rate.
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- *What are the requirements for tracking and spending of the equipment depreciation component of the recharge rate?*

Affect on rates

Ability to track the depreciation as a component of the fund balance

Guidelines for expenditure of the collected depreciation
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What are the requirements for tracking and spending of the equipment depreciation component of the recharge rate?

Affect on rates

Depreciation expense for a given piece of equipment must be applied to only those rates which utilize that specific instrument.

With the ongoing price escalation of scientific equipment, including depreciation expense in the rates can often render the service too expensive for your users. This is a determination that each core facility must decide based on their own circumstances. It is not required that either all equipment or no equipment costs be included in the rate structure; you can choose to include depreciation on some equipment and not all equipment.
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- What are the requirements for tracking and spending of the equipment depreciation component of the recharge rate?

Ability to track the depreciation as a component of the fund balance

Revenue derived from the depreciation expense must be tracked and accounted for as a component of the overall recharge fund balance. Because recharge accounts are cost recovery systems, there are limits on the amount of carry forward balance. The depreciation is exempt from this calculation since it is associated with a long term expense, but you must have supporting documentation showing the amount of accumulated depreciation so that it will be allowed to carry over from year to year and not be considered surplus revenue from normal operations.
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What are the requirements for tracking and spending of the equipment depreciation component of the recharge rate?

Guidelines for expenditure of the collected depreciation

When properly tracked, the accumulated balance of collected depreciation funds can be applied to the purchase of new equipment for the core, which is not normally an allowable expense for a recharge operation.

Use of depreciation funds requires prior written approval from OSR Cost Analysis and Compliance Office.
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Office of Research Technologies (ORT) provides assistance with this and other calculations for recharge rate development.

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