



University of Alaska
Statewide Accounting Manual

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Title: Service/Recharge Centers

Purpose and Scope:

To provide guidelines for accounting and operation of service (recharge-type) centers and ensure compliance with federal requirements for recharge-type activity. These procedures apply to all material recharge activities conducted by the university. Materiality, for purposes of this policy, is any activity which generates more than \$5,000 in distributed charges during one fiscal year. Cost transfers, the reallocation of actual charges from one account to numerous accounts, do not fall under this policy.

General:

A "recharge" is the assessment, collection, or charge by one department or unit for goods or service furnished to another department, activity, or project. It represents a redistribution or transfer of the cost of providing a good or service from the provider to the user. Unlike a sale to an external party which may include a provision for margin or profit, a recharge excludes any element of profit or other increment above cost. Recharge rates must be based on the actual cost of providing the goods or services and adjusted to achieve a break-even over the normal operating cycle of the enterprise. Recharge amounts may not be based on indirect methods of cost allocation. Rates must also be based on actual quantities of goods or services provided.

A "service center" is a department, unit, or activity which provides goods or services to other departments or units on a regular basis at approved rates.

For purposes of this procedure, three classifications of service centers are defined: Time & Materials Centers, Recharge Centers, and Specialized Service Facilities.

Time & Materials Center (T&M Center) - service center with less than \$100,000 per year in gross receipts, sales to external parties of less than 5 percent of gross receipts, inventory of less than \$50,000, and a June 30 fiscal year operating cycle.

Recharge Center - service center with (1) more than \$100,000 per year in gross receipts, or (2) sales to external parties of more than 5



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percent of gross receipts, or (3) an enterprise operating cycle which is other than a June 30 fiscal year, or (4) inventory in excess of \$50,000, or (5) permission/directive from the CFO to be classified as a recharge center rather than a T&M Center.

Specialized Service Facility - service center for which the internal recharge rates include a provision for recovery of Institutional Indirect Costs. In most cases, specialized service facilities will have a separate negotiated indirect cost rate. Treatment as a Specialized Service Facility requires approval of the vice president for finance and is generally reserved for highly complex facilities and large recharge operations (over \$500,000) or for operations which have significant external sales.

Federal Requirements:

Service center activities may only be charged to federally sponsored agreements and indirect cost pools, if the charge for the activity is:

1. reasonable in amount;
2. determined based on actual use of the service, product, or commodity;
3. established at levels expected not to exceed the cost of providing the service, product, or commodity; and
4. based on rates that do not discriminate between federally and nonfederally supported activities, including use for instruction or other internal purposes.

The following are costs which cannot be recovered through service center charges:

1. lease-purchase payments or amounts to repay principal or interest on loans (these costs are recovered through depreciation);
2. amounts required to fund or finance inventories, receivables, reserves, or other items requiring working capital; and
3. overdrafts or deficits from other service centers or funds.



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A service center must follow sound cost accounting practices and standards, including use of consistent rate setting methodologies and billing/charge-out practices. Charges must be applied consistently to each user regardless of funding source. Accounting and pricing practices cannot be changed merely for budgetary or administrative convenience without the approval of the government.

The Controller shall be the liaison with all governmental agencies on matters governed by this procedure. All contacts with governmental agencies should be coordinated through the Controller's Office.

Approvals:

All service centers, regardless of type, must be approved by the regional campus chief financial officer (CFO) and must submit updated pricing proposals to the CFO, or designee, for approval at least annually. The CFO may establish a service center committee to evaluate all requests for creation of service centers and service center pricing proposals. If established, the committee should, at a minimum, include the campus's principal accountant and the grants and contracts officer.

Other regulation:

Sales of goods and service to external parties are also subject to regents' policy on competition with the private sector (05.15.06) and the Statewide Accounting Manual procedure on unrelated business income taxes (pending issuance). Transactions or sales to for-profit entities and private individuals without university affiliation are generally not appropriate and require the advance approval of the regional campus CFO. When sales are made to private sector customers, the recharge center must be able to document that the particular goods or services provided were not available in-state from commercial sources (e.g., certification by the customer).

Definitions:

Direct Costs - Direct Costs are costs that can be consistently and specifically identified directly with the provision of goods or services by an activity. Examples of such costs are salaries and fringe



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benefits for employees conducting the activity and costs of materials and supplies consumed in conducting the activity.

Departmental Indirect Costs - Departmental Indirect Costs are departmental costs that benefit more than one activity and, therefore, cannot be readily identified with a particular activity. Examples of such costs are departmental administration and depreciation for equipment which benefits all departmental objectives.

Enterprise Funds - Enterprise Funds are authorized funds specifically established for recording allowable costs and revenues for recharge center activity. Such funds are classified within the designated fund group of accounts. Encumbrances are deleted at the end of each fiscal year and recreated in the following year. Fund balances and deficits carry forward to the following year.

Institutional Indirect Costs - Institutional Indirect Costs are costs incurred by the institution that benefit more than one department or activity. Examples of such costs are facilities operations and maintenance expenses and campus and statewide administrative costs.

Operating Cycle - Operating Cycle is the period of time over which revenues from an activity are expected to be approximately equal to expenses from such activity, generally one to three years depending on the type and complexity of the recharge center operation and its capital requirements.

Time & Materials Center, Accounting Requirements:

The activity of the T&M Center must be separately budgeted and accounted for in a unique org(s) established for the service center. The fund utilized shall be the general unrestricted fund of the campus or unit operating the center or providing the product or service.

All T&M Center billings to university accounts and sales to external parties must be recorded to specifically assigned revenue object codes and charged at



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approved rates. Net revenue excesses must be refunded to users through rate adjustments in current or future periods or other equitable means. Deficits must be eliminated through future price adjustments or general unrestricted fund subsidies.

The price charged must be limited to recovery of the Direct Costs of providing the product or service. The price or fee charged should cover the total cost of labor and all related leave and staff benefit charges and the cost of purchased services and supplies directly related to the activity. T&M Center documentation must include substantiation for all Direct Costs and the relationship of the fee or price charged to such costs. All users must be charged at the same rates and in the same manner; all rates must be approved in advance by the regional campus CFO or designee.

Recharge Center, Accounting Requirements:

Each Recharge Center must be accounted for in a unique org(s) and fund(s) within the Enterprise Fund group of accounts. The Enterprise Funds are part of the unrestricted funds and function similar to Auxiliary Funds. The Enterprise Funds utilize the 17XXXX series assigned to campuses as follows: Statewide (SW) 171XXX; Fairbanks (UAF) 173XXX; Anchorage (UAA) 174XXX; and Juneau (UAS) 175XXX.

Recharge activity orgs are identified with program codes ending with "Y". Operations and Maintenance recharge program codes (e.g. physical plant) are #####OY; General and Administrative recharge program codes (e.g. SW computer network) are #####GY; research unit recharge program codes are #####RY; academic support recharge program codes are #####AY; etc.

All revenues and allowable costs (including the Direct Costs of providing the product or service, equipment depreciation, and Departmental Indirect Costs) must be recorded to the assigned org(s) in the appropriate Enterprise Fund(s). Institutional indirect costs may be recorded in the Recharge Center account if approved in advance by the Controller.

Costs identifiable with recharge activities, but not directly recoverable through the recharge rate, such as equipment purchases and lease purchase payments,



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shall be separately budgeted and recorded to the Recharge Center org(s) in the general unrestricted fund. Costs which are identifiable with recharge activities but unallowable under Federal Circular A-21 must also be charged to the Recharge Center's specified org(s) in the general unrestricted fund.

Recharge Centers with inventoriable products or materials must complete a physical inventory of such products or materials at least annually at the end of the fiscal year. Although a perpetual inventory system is preferable, at a minimum, the Recharge Center's purchases must be adjusted and the inventory recorded at net realizable value in the Recharge Center's Enterprise Fund each June 30. Any cost associated with financing Recharge Center inventories shall be recorded in the Recharge Center's org in the general unrestricted fund.

Labor costs identifiable with recharge activities must be charged to the Recharge Center account on the employee's time report or, upon approval by the campus CFO, through a work order system. When a work order system is used, an additional entry is required to transfer the actual salaries and benefits to the Recharge Center (see Attachment #2). Positions may either be budgeted in the Recharge Center accounts (the preferred method for employees with a Recharge Center primary assignment), or budgeted in the general unrestricted fund.

The cost of all equipment utilized directly in the provision of the product or service must be recorded on the property system under the Recharge Center's specified org. Depreciation expense is computed on a straight line basis utilizing the schedule of equipment useful lives and applying a half-year convention (take six months depreciation in the acquisition year, regardless of the actual month purchased). The offset is a credit to the Equipment Replacement Reserve balance sheet account in the Recharge Center's Enterprise Fund. This reserve is to be used in the same or a later year to fund equipment purchases. See Attachment #2 for sample entries.

All Recharge Center billings to university accounts and sales to external parties must be recorded to specifically assigned revenue object codes and charged at approved rates. See Attachment #2 for sample entry.

The price charged is generally limited to recovery of the Direct Cost of providing the product or service, equipment depreciation, and Departmental Indirect Cost.



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Upon specific approval from the Controller, the internal price may include a provision for Institutional Indirect Costs. However, sales to external parties must include a provision for Institutional Indirect Costs and may include margin or profit, if appropriate. Recharge Center documentation must include substantiation for all costs of providing the service and the relationship of the fee or price charged to such costs. All internal users must be charged at the same rates and in the same manner; all rates must be approved in advance by the regional campus CFO or designee.

Prices are set to achieve a targeted break-even for the Recharge Center's normal Operating Cycle. In certain limited cases, a Recharge Center may be unable to break-even unless subsidized. Any subsidy must be approved by the regional campus CFO during the rate-setting process. See Attachment #2 for sample entry.

The Recharge Center's fund balance (accumulated excess/deficit of revenues over expenses) in the Enterprise Fund will be carried forward each year. All recoverable expenses must be charged to the appropriate Enterprise Fund. The price of the center's product or service shall be adjusted to eliminate any carry-forward amounts to achieve a targeted break-even for the Recharge Center's normal Operating Cycle. Unless a redistribution is approved or required by the Controller, any indirect costs or margin recovered on external user charges shall be utilized to reduce amounts charged to internal users on a fair and consistent basis.

Specialized Service Facilities, Accounting Requirements:

Specialized Service Facilities shall be accounted for in the same manner as Recharge Centers, except that a provision for Institutional Indirect Costs shall be recorded as an intra-agency expense charge to the Specialized Service Facility's Enterprise Fund account and as an intra-agency receipt revenue (recovery) in its separately budgeted unrestricted fund org. The Institutional Indirect Cost recovery will be redistributed to facilities and administrative operations in proportion to actual costs, as determined by the Controller. Any over/under recovery of such costs shall be reversed in the subsequent period.



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Establishing Service Centers:

Establishing a service center, including a T&M Center, requires extensive documentation of the center's operating plans and pricing methodology. The request for creation of a service center must be prepared in accordance with the guidelines presented in this section and submitted to the regional campus CFO by the dean or director of the unit creating the center.

At a minimum, documentation for the operating plan shall include:

1. Service center questionnaire (see Attachment 1).
2. Proforma income statements for the service center or activity for each of the next three fiscal years. Include all Direct Costs of the service center operation and equipment depreciation based on the estimated original equipment cost over the useful life of the asset. If Departmental Indirect Costs are to be recovered in the fee or price charged for the goods or service provided, include such costs as expenses and provide documentation on how the amounts were determined.
3. A schedule of proposed rates and/or markup for services, goods, and/or materials provided by the service center and a calculation of projected income based on proposed rates and forecasted activity levels. If differential rates are charged to various users, include a schedule which identifies the classes of users, the volume of activity, and the basis for differential rates. All internal users (including faculty, students, sponsored projects, and other departments) must be charged at the same internal rates. Rates for external users will include a provision for Institutional Indirect Costs and may include margin or profit, if appropriate.
4. A schedule of equipment required by the service center for operation at the forecasted level, a schedule of forecasted equipment additions for each year presented and the source of funding for each addition, and a calculation of the applicable for each year presented.



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5. A summary of significant assumptions used to develop the proforma financial statements and operating plan.
6. A description of the potential variance (best case/worst case) from operating results forecasted in item 2 above and how any excess or deficit would be accommodated.

Rate Change Proposals:

Annually, each service center must submit a proposal to establish rates for the following fiscal year. All rates must be documented, reviewed, and approved by the regional campus CFO. Proposals must be prepared in accordance with the guidelines presented in this section and submitted to the regional campus CFO by the dean or director of the unit maintaining the center. Proposals shall include:

1. Service center questionnaire (see Attachment 1).
2. A brief narrative explanation of the proposed rates and reason for any change from the prior period.
3. Income statement (at actual) for the last fiscal year and proforma annual income statements for the current and subsequent year.
4. A schedule of rates and/or markup for services, goods, and materials in effect or proposed and a calculation of projected income based on proposed rates and forecasted service levels for each year an income statement is presented. If differential rates are charged to various users, include a schedule which identifies the classes of users, the volume of activity, and the basis for differential rates.
5. A schedule of all equipment assigned to the service center including tag number, description, date acquired, original cost, and funding source, a schedule of forecasted equipment additions for each year presented, the source of funding for each addition, and a calculation of the applicable depreciation for each year.



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6. A summary of significant assumptions used to develop the proforma income statements.
7. A description of the potential variance (best case/worst case) from operating results forecasted in item 2 above and how any excess or deficit would be accommodated.

Documentation and Record Retention:

Service Centers have the responsibility for retaining workpapers supporting rate calculations, pricing decisions, and documentation of rate approvals. These documents should be retained for a minimum of 10 years.

Billing and usage records should also be maintained to identify the service provided to each user and the total service provided by the service center. If service center personnel are charging time to multiple categories of service, effort reports should be maintained to document the allocation, even if these effort reports are also filed centrally. This documentation should be maintained for a minimum of three years, if duplicated centrally, or for a minimum of 10 years if maintained only by the service center.

Service/Recharge Centers - Rate Proposal and Questionnaire (Attachment 1)

Please complete a separate questionnaire and proposal for each service center or recharge activity. This questionnaire should be submitted to the regional campus chief financial officer with each request to establish a Recharge Center or Time & Materials Center. In addition, an updated copy of the questionnaire should be submitted to the chief financial officer, or designee, with each annual rate proposal.

(See accounting manual procedure P-112 for guidelines on service/recharge centers and allowable costs)

Name of service center: _____

Service center org/fund number(s): _____

Individual to contact: _____

Work phone number: _____

Date questionnaire was completed: _____

Period for which rate is requested: _____

Estimated recoverable costs for the period: _____

Estimated revenue for the period: _____

Estimated amount charged to federal grants
and contracts: _____

Rates proposed:

I reviewed this questionnaire and proposal. I believe it fairly represents the activities of the respective service center and request authorization to implement these rates as proposed.

Dean/Director certification _____

Service/Recharge Centers - Rate Proposal and Questionnaire (Attachment 1)

CFO (Chief Financial Officer) Approval: _____

1. Provide a brief description of the recharge activity, including why it is needed, principal customers or beneficiaries, and anticipated activity levels (attach explanation).

2. Provide a brief description of the service center's operating cycle or other period over which accumulated revenues are expected to be approximately equal to accumulated allowable costs including equipment use allowances (attach explanation).

3. Provide a brief description of the methodology used to establish the recharge rate, markup, or price (attach explanation).

4. What unit of measure is used as a billing base (hour, day, procedure, mileage, etc.) _____

5. Approximately how many units will be processed or sold during the fiscal year?

6. Are all users charged for this service? Yes _____ No _____
If no, how do you determine who is charged? _____

7. Are charges made to anyone other than university departments and grants and contracts? Yes _____ No _____
If yes, who are these external customers and estimated amounts of annual activity? _____

Service/Recharge Centers - Rate Proposal and Questionnaire (Attachment 1)

8. Are all users charged the same rate? Yes_____No_____
If no, how do you determine which rate is used?_____

9. Are any costs related to this activity charged to another account or is the activity subsidized in some manner? Yes_____No_____

a. If yes, please describe the nature of the subsidy._____

b. Approximate amount of subsidy for the fiscal year. \$_____

10. Is an inventory required for this activity? Yes_____No_____
If yes, what is the average value of the inventory, at cost?_____

11. Are there any significant assets (cash, accounts receivable, land, etc.) liabilities, commitments, or risk management exposures associated with this activity?

Yes_____No_____

If yes, please describe?_____

12. Attached proforma income statements, schedules, and other supporting documentation and explanations as described in the accounting manual procedures for service/recharge centers, P-112.

Attachment #2 to Policy P-112 Service/Recharge Centers
Accounting Entry Examples

1) To record depreciation expense on recharge center equipment and the related equipment replacement reserve.

Note: The debit is to the recharge center account providing the reserve; the credit is to a fund in the 179XXX group to be determined by the MAU budget office.

DR Recharge Center org - 8805 (Depreciation Expense) - 17XXXX
CR Recharge Center org -8805 (Depreciation Expense) - 179XXX

2) To move the accumulated equipment replacement reserve to unrestricted general fund revenue to fund the cost of equipment purchases:

DR Recharge Center org - 9904 - 179XXX
CR Recharge Center org - 9904 - 10XX10

3) Entry to record purchase of equipment:

DR Recharge Center org - 5XXX - 10XX10
CR Accounts Payable - 10XX10

4) To transfer the actual salary and benefit costs to the Recharge Center account for employee time recorded through an approved work order system (when position is budgeted in the general fund and is not charged to the Recharge Center account by time sheet entry):

DR Recharge Center org - 8453 (Transfers Other) -17XXXX
CR Operating account org - 8453 (Transfers Other) -10XX10

5) To record the charge to other departments at the billed recharge rate:

DR Departmental org - 3XXX - Various Funds
CR Recharge Center org - 99XX - 17XXXX

6) To record the revenue from non-university sources at the billed recharge rate:

DR Cash - 10XX10
CR Recharge Center org - 9856 - 17XXXX

7) To record subsidy of recharge center operations:

DR Operating account org - 8457 (Recharge Subsidy) -10XX10
CR Recharge Center org - 8457 (Recharge Subsidy) -17XXXX

Attachment #3 to Policy P-112 Service/Recharge Centers

University of Alaska
Sample Repair Shop Recharge Center
Service Center Rate Proposal Questionnaire
Supplemental Information

Question 1

The sample repair shop recharge center is a small facility operated by the finance office to service and repair administrator performance monitors. The units require extensive maintenance to monitor low levels of productivity. Because these monitors are unique to higher education and servicing the units requires a high level of tolerance for ambiguity and indecisiveness, the service is generally only available internally.

Question 2

The normal operating cycle for the recharge center is the university's fiscal year. The only unusual expenditures which are not made regularly or are not related to the current level of service is the purchase of diagnostic equipment. The equipment purchases are funded through budgeted unrestricted funds and are recovered over the useful life of the equipment.

Question 3

Rates are established by estimating the number of billable hours which will be generated during the fiscal year, estimating the cost which will be incurred to support that level of activity, and then dividing the estimated costs by the billable hours to obtain a billing rate per hour.

**University of Alaska
Sample Repair Shop Recharge Center
FY96 Rate Proposal
Proforma Income Statement And Rate Proposal**

Account Number(s) 12345-17999

	<u>Object</u>	Actual <u>FY94</u>	Projected	
			<u>FY95</u>	<u>FY96</u>
Revenue:				
Internal		117,490	131,355	132,727
External (@ 47% markup)		<u>8,203</u>	<u>8,705</u>	<u>8,372</u>
		<u>125,693</u>	<u>140,060</u>	<u>141,099</u>
Expenses:				
Labor	1000	83,519	92,500	96,900
Travel	2000	4,220	5,000	6,500
Contractual	3000	12,430	13,000	13,700
Commodities	4000	22,375	24,200	27,800
Student Aid	6000	0	0	0
Misc.	8000	<u>0</u>	<u>0</u>	<u>0</u>
		<u>122,544</u>	<u>134,700</u>	<u>144,900</u>
Adjustments:				
Depreciation allowance		1,176	1,800	2,000
Prior period deficit (- surplus)		<u>0</u>	<u>-1,973</u>	<u>-5,533</u>
Net Recoverable costs		<u>123,720</u>	<u>134,527</u>	<u>141,367</u>
Excess (- shortfall) revenue over expenses		<u>1,973</u>	<u>5,533</u>	<u>-268</u>

Revenue Calculation and FY96 Rate Proposal:

	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>
Billable hours:			
Internal	1895	2085	1981
External	<u>90</u>	<u>94</u>	<u>85</u>
Total billable hours	<u>1985</u>	<u>2179</u>	<u>2066</u>
Billing rates	<u>\$62.00</u>	<u>\$63.00</u>	<u>\$67.00</u>
Revenue:			
Internal	117,490	131,355	132,727
External @ base rate	5,580	5,922	5,695
Markup on external charges @ 47%	<u>2,623</u>	<u>2,783</u>	<u>2,677</u>
	<u>125,693</u>	<u>140,060</u>	<u>141,099</u>

**University of Alaska
Sample Repair Shop Recharge Center
FY96 Rate Proposal
Labor Cost Projection**

<u>Name</u>	<u>Category</u>	<u>Leave Accrual Rate</u>	<u>Benefits Accrual Rate</u>	<u>Hourly Rate</u>	<u>Annual Hours</u>	<u>Projected Leave Usage</u>	<u>Non- Recharge Activities</u>	<u>Hours Net Of Leave (1)</u>	<u>Wages Charged</u>	<u>Leave Accrual</u>	<u>Staff Benefits</u>	<u>Projected Total Labor Costs</u>	<u>Billable Hours</u>	
<u>FY94</u>														
J. Smith	Classified							1660					1330	
J. Anderson	APT							950					575	
	Temp.							100					80	
Actual charges to 12345-179999								<u>2710</u>				<u>\$83,519</u>	<u>1985</u>	
<u>FY95</u>														
Actual through 12/31/94								1490				\$46,295	1090	
J. Smith	Classified	21.5%	40.5%	\$17.45				880	\$15,356	\$3,302	\$7,556	\$26,214	704	
J. Anderson	APT	19.0%	31.6%	\$25.70				450	\$11,565	\$2,197	\$4,349	\$18,111	270	
R. Thomas	Temp.	0.0%	9.6%	\$12.00				144	\$1,728	\$0	\$166	\$1,894	115	
								<u>2964</u>				<u>\$92,514</u>	<u>2179</u>	
												Rounded	<u>\$92,500</u>	<u>2179</u>
<u>FY96</u>														
J. Smith	Classified	21.5%	40.5%	\$19.20	2080	320	0	1760	\$33,783	\$7,263	\$16,624	\$57,670	1408	
J. Anderson	APT	19.0%	31.6%	\$26.47	2080	280	900	900	\$23,824	\$4,527	\$8,959	\$37,310	540	
Unknown	Temp.	0.0%	9.6%	\$12.00				148	\$1,776	\$0	\$170	\$1,946	118	
								<u>2808</u>				<u>\$96,927</u>	<u>2066</u>	
												Rounded	<u>\$96,900</u>	<u>2066</u>

(1) Represents forecasted hours to be charged to service center activity, net of annual, sick and holiday leave, and time charged to other non-recharge center activities.

**University of Alaska
Sample Repair Shop Recharge Center
FY96 Rate Proposal
Equipment Schedule**

Account Number(s)	12345-179999		Acquisition Date	Funding Source	Cost	Useful Life in Yr.	Depreciation (1)		
	Tag #	Account					FY94	FY95	FY96
Owned and on-hand:									
Work bench	116203	12345-5221-179999	5/12/76	Unrestricted	\$2,500	10	\$0	\$0	\$0
Storage racks	178916	12345-5221-179999	9/13/84	Unrestricted	\$2,600	10	\$260	\$130	\$0
Diagnostic Unit #1	308884	12345-5335-179999	3/30/92	Unrestricted	\$5,000	11	\$455	\$455	\$455
Diagnostic Unit #2	331924	12345-5335-179999	4/1/94	Unrestricted	\$6,000	11	\$273	\$545	\$545
Office computer	348296	12345-5328-179999	7/1/93	Unrestricted	\$3,000	8	\$188	\$375	\$375
Scheduled acquisitions:									
Diagnostic Unit #3			4/1/95	Unrestricted	\$7,000	11	\$0	\$318	\$636
							<u>\$1,176</u>	<u>\$1,823</u>	<u>\$2,011</u>
Use							<u>\$1,176</u>	<u>\$1,800</u>	<u>\$2,000</u>

(1) Depreciation is calculated on the straight-line basis. One-half year depreciation is taken in the year of acquisition.