Managing Core Capital Equipment Expenses: Equipment Depreciation

Policy: (from the Guidelines for Research Shared Resources and Core Facilities Cost Center Operations):

Supplies and Equipment
Supplies are defined as any items, consumable reagents, small equipment or other product purchased for less than $5,000, for the purposes of Vanderbilt and Federal policy. Supplies are an appropriate operating expense to be considered in calculating rates.

Capital equipment is defined as an item with a purchase price of $5,000 or more and a useful life of more than one year. Biomedical research equipment is typically assigned a useful lifetime of 5 – 8 years. Refer to Vanderbilt’s Asset Capitalization Policy for further guidance.

Federal guidelines do not allow core user fees to be structured to build “reserves” for anticipated capital equipment purchases or replacements; it is not appropriate to charge current users for costs associated with future periods. However, federal guidelines do allow for the recovery of depreciation expense associated with the asset. When considering depreciation in cost determinations, the following guidelines apply:

Equipment Depreciation Calculated and Charged to Cores
Capital equipment purchases may not be directly charged to the core’s operating cost center (3-04-xxx-8xxx). Instead, these equipment purchases will be made from a separate cost center established in the plant fund range (8-04-xxx-xxxx). If necessary, each core will be assigned a separate plant fund cost center to track equipment purchases. In practice, actual annualized equipment depreciation expense will be charged on the core’s operating cost center (3-04-xxx-8xxx), and credited to the plant cost center (8-04-xxx-xxxx) monthly. The funds accumulated in this 8-04 cost center may then be used for new equipment acquisition. The depreciation expense on the 3-04 cost center should be considered when establishing core service charges.

Notes:
All proposals for including asset depreciation in core cost determinations are subject to review and approval by the Office of Research, working in conjunction with the Department of Finance.

Revised February 9, 2021
**Federally-Funded Equipment**

Depreciation of equipment purchased by the federal government, whether or not title has reverted back to the institution, cannot be included in the user rates. Where the institution has specifically agreed to cost share a piece of equipment in a federal award, the depreciation of the institution-funded portion is also unallowable in the rates.

Steps to establish equipment depreciation schedule:

1. Determine if your core will need funds for equipment replacement

2. Obtain your equipment inventory from Dolores Lester in the Department of Finance

3. Submit for review to OOR:
   a. qualified equipment inventory, including useful lifetime and current depreciation status
   b. New cost center create form for 804 equipment depreciation cost center

4. Once the new 804 cost center is created, work with your department administrator and the Department of Finance to:
   a. Make a onetime “catch-up” journal entry for depreciation expense year-to-date.
   b. Set up a monthly automatic journal entry to debit equipment depreciation expense from your core’s 304 operations cost center, and credit your core’s 804 equipment depreciation cost center.
   c. Submit capital purchase requests to the Office of Research for review and approval before sending to Finance and Procurement.
   d. Revise service fee calculations to reflect monthly equipment depreciation expense.

Contact the Office of Research for guidance and assistance.

NOTE: The core administrator will need to work with the Department of Finance to initiate the ‘catch-up’ journal entry and monthly recurring journal entries. This process is not automatic.