

ADMINISTRATIVE POLICY

# Capitalization Policy

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**Approval Authority:** Vice Chancellor for Finance  
**Responsible Administrator:** Controller  
**Responsible Office:** Finance  
**Policy Contact:** Assistant Controller

Originally issued:  
 October 2017  
 Current version  
 effective as of:  
 July 2022

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**POLICY STATEMENT/REASON FOR POLICY**

This policy establishes requirements for the capitalization of moveable equipment and real property (including the acquisition of land, buildings, fixed equipment, and the renovation and improvement of existing real property owned or leased by Vanderbilt) and is applicable to all areas within Vanderbilt University. Vanderbilt University follows uniform policies and procedures for financial statement purposes and or compliance with federal requirements 2 CFR 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

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**THIS POLICY APPLIES TO**

This policy applies to all Vanderbilt staff responsible for initiating, processing, and authorizing asset purchases. The policy serves as the single governing authority for all capitalization of assets.

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**POLICY**

**A.** All moveable equipment with a useful life of more than one year and an acquisition cost of \$5,000 or more per unit will be capitalized on a per unit basis. A “unit” is defined as a piece(s) of equipment that, when assembled, functions as a stand-alone asset, or is an enhancement to an existing asset. The unit can include installation and accessories costs that are needed to achieve the full functionality of the asset, if purchased at the same time as the main piece of equipment. Training, warranty, and service plan costs associated with the unit may not be capitalized.

Example: A telescope purchase includes the following additional charges that are separate from the main piece of equipment: lenses, mirrors, and structural support. Furthermore, there are separate charges for installation, training on how to use the telescope, and a 5-year warranty. The lenses, mirrors, structural support, and installation charges may be included in the capitalized cost. The training and warranty costs may not be capitalized and must be expensed.

**B.** A group or lot of moveable equipment that in total costs \$5,000 or more, but each unit costs less than \$5,000, will not be capitalized. Examples of this type of group purchase include, but are not limited to, one lot of modular furniture or computer workstations where the total cost is \$5,000 or more, but the unit cost is less than \$5,000.

- C. Vanderbilt protects and holds a fine art and a library collection as it is in the business of building collections to benefit education and research. As such, Vanderbilt expenses fine art and library collection items as incurred. Vanderbilt requires the use of proceeds from fine art and library collections that are sold or deaccessioned to be for the direct care of existing collections. Other works of art, historical treasures, or similar assets that do not meet the US GAAP definition of a collection, will follow the capitalization policy laid out here.
- D. All real property acquisitions or improvements with a useful life in excess of one year and a cost of \$100,000 or more will be capitalized.
- E. Feasibility studies will be expensed when incurred. Exceptions must be approved by the Director of Accounting and Financial Reporting or the Controller.
- F. Vanderbilt depreciates all buildings and equipment utilizing the straight-line method over their useful lives. Vanderbilt uses a mid-year convention for buildings and a monthly convention for all equipment.
- G. Vanderbilt retires assets from the fixed asset system when an asset is sold, scrapped, traded-in, lost or stolen, no longer being used, or Vanderbilt no longer has title. Vanderbilt removes real property from the fixed asset system that has been modified or replaced by a building renovation if the original cost and accumulated depreciation is separately identifiable.
- H. Asset transfers to other departments, retirements, and trade-ins must be communicated in writing, on an on-going basis, to the Controller's Office using the Property Transmittal Form. The only exception is a location change that does not involve a change in departmental ownership (i.e. moving equipment from one lab or office to another lab or office within the same financial unit). This type of change can be communicated to the appropriate property management office via e-mail to [capitalassets@vanderbilt.edu](mailto:capitalassets@vanderbilt.edu).
- I. Asset estimated useful lives are as follows:

| <b>Asset Type</b>      | <b>Life</b>                                       |
|------------------------|---------------------------------------------------|
| Building Improvements  | 15-20 years                                       |
| Buildings – New        | 50 years                                          |
| Buildings – Purchased  | 20 – 25 years                                     |
| Fixed Equipment        | 5 – 25 years                                      |
| Land                   | N/A                                               |
| Land Improvements      | 10 – 20 years                                     |
| Leasehold Improvements | Not to exceed the life of the lease plus renewals |
| Moveable Equipment     | 3 – 15 years                                      |

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## **DEFINITIONS**

Asset Management – Oracle Fixed Asset Sub Ledger (FASL) – repository containing all details of capital assets.

**Capitalize** – Capitalizing is an accounting method used to delay the recognition of expenses by recording the expense as a long-term asset. In general, capitalizing expenses is beneficial as it allows companies acquiring new assets with a long-term lifespan to spread out the costs.

**Collection** - Works of art, historical treasures, or similar assets that meet all of the following criteria:

- a. They are held for public exhibition, education, or research in furtherance of public service rather than financial gain.
- b. They are protected, kept unencumbered, cared for, and preserved.
- c. They are subject to an organizational policy that requires the use of proceeds from items that are sold to be for the acquisitions of new collection items, the direct care of existing collections, or both.

**Direct Care** - Direct care is an investment that enhances the life, usefulness, or quality of the library collection.

**Fixed Asset** - is a long-term tangible piece of property that a firm owns and uses in its operations to generate income. Fixed assets are not expected to be consumed or converted into cash within a year. Fixed assets are known as property, plant, and equipment (PP&E). They are also referred to as capital assets.

**Real Property** – fixed property, principally land, and buildings.

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## CONSEQUENCES OF NON-COMPLIANCE

Assets may not be properly accounted for resulting in inaccurate or incomplete Entity financial statements.

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## PROCEDURES

[Property Transmittal Form](#)

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## FREQUENTLY ASKED QUESTIONS

Capital Project Examples:

|                                     | <b>Capital</b> | <b>Comments</b>                                                                                                                                                                                           |
|-------------------------------------|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Lighting retrofit                   | No             | Typically treated as non-capital as scope of work is generally to replace with more efficient bulb types, not major lighting redesign.                                                                    |
| Repair drainage issues in bathrooms | No             | Typically treated as non-capital as project is simply correcting a deficiency in design (rather than a major improvement of the overall space.)                                                           |
| Replace leaking pipes               | No             | Replacing sections of pipe due to leaks and other damage with new piping is not considered capital. However, a plumbing project could be considered capital if there is a major redesign of the plumbing. |

|                                                    |     |                                                                                                                                                                                                                                                                                   |
|----------------------------------------------------|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Replace aging water pumps                          | No  | Typically treated as non-capital as project is simply replacing a building component that is not functioning. There is typically no significant added value or new operation.                                                                                                     |
| Roof Repairs                                       | No  | Typically treated as non-capital as project is simply replacing a building component that is not functioning. There is typically no significant added value or new operation.                                                                                                     |
| Roof Replacement                                   | Yes | Full roof replacements are treated as capital costs.                                                                                                                                                                                                                              |
| Bathroom upgrades                                  | Yes | Typically treated as capital if performing a complete major upgrade such as replacing fixtures, plumbing, flooring, and other surfaces.                                                                                                                                           |
| Replacing or Upgrading major mechanical/electrical | Yes | Replacing major mechanical electrical equipment with age over 10 years is typically treated as capital since new equipment is more efficient and improves the operation of the building.                                                                                          |
| Window replacement                                 | Yes | Typically treated as capital but assessment depends on the nature of the replacement. Replacing single pane with single pane is non-capital, but replacing single pane with double pane or similar windows that improve efficiency and performance of the space would be capital. |

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**ADDITIONAL CONTACTS**

| Subject      | Contact | Office     | Phone          | Email                        |
|--------------|---------|------------|----------------|------------------------------|
| Fixed Assets | Finance | Accounting | (615) 343-6601 | capitalassets@vanderbilt.edu |

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**RELATED POLICIES/DOCUMENTS**

[Fabrication of Fixed Assets](#)

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**HISTORY**

**Issued:** October 2017  
**Reviewed:** November 2019  
**Amended:** July 2022

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**Procedures Website**

N/A

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**FAQ Website**

N/A