# Capital Assets and Capitalization Procedures

*Administrative Procedures*

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| **Responsible Official** | Chief Financial Officer |
| **Responsible Office** | Office of Financial Services Comptroller |
| **Procedure Type** | Business and Finance - Administrative Guidance |
| **Effective Date** | Upon administrative issuance |
| **Related Policy** | Capital Assets and Capitalization Policy (pending University approval) |
| **Related Procedure** | FP-42 Equipment/Movable Property Inventory Control Procedures |

## 1. Purpose

These procedures provide immediate, practical guidance for identifying and processing potential capital expenditures. They document existing ETSU capitalization thresholds and establish a consistent workflow for departments, Procurement, Facilities, Information Technology, and Financial Accounting.

## 2. Core Rule

An expenditure is capitalized only when it creates or acquires a qualifying long-lived asset, or materially improves an existing long-lived asset, and meets the applicable capitalization threshold. A transaction should not be coded or structured to avoid or artificially meet a capitalization threshold. When classification is uncertain, contact the Comptroller before final coding or year-end close.

## 3. Current ETSU Capitalization Thresholds

| Category | Threshold | Quick Test |
|---|---|---|
| Land | No minimum threshold | Qualifying land acquisition cost; do not depreciate. |
| Buildings | $100,000 | Acquisition or construction of a building. |
| Infrastructure | $50,000 | Creates or materially improves a long-lived infrastructure asset. |
| Building/land additions and improvements | $50,000 | Adds capacity/functionality or materially extends useful life. |
| Equipment & Leased Equipment | $5,000 per unit | Movable unit + useful life of at least one year. |
| Art/historical treasures/collections | $5,000 | Qualifying item or collection asset. |

| Category | Threshold | Quick Test |
|---|---|---|
| Software | $100,000 | Qualifying capitalizable software project costs. |
| Lease assets | $100,000 | Evaluation required under GASB lease guidance. |
| SBITAs | $60,000 | Evaluation required under GASB SBITA guidance. |

## 4. Capitalization Decision Process

1. Identify the asset or project. Determine what the University is acquiring, constructing, developing, or improving and whether it will provide service beyond the current fiscal year.
2. Identify the applicable asset category and threshold. Use the table above. Equipment is evaluated per unit; projects and improvements are evaluated based on qualifying project costs.
3. Determine whether the expenditure creates a new asset or improves an existing asset. Repairs and maintenance that simply preserve ordinary operating condition are expensed.
4. Identify qualifying costs. Include only costs necessary to acquire, construct, develop, install, and place the asset into its intended location and condition for use.
5. Obtain an accounting determination when required. Software, leases, SBITAs, complex renovations, bundled purchases, component replacements, donated assets, and unusual transactions should be referred to the Office of Financial Services.
6. Use the appropriate accounting and project coding. Departments should follow coding instructions issued by Financial Accounting and should not split invoices, purchase orders, contracts, or projects to alter capitalization treatment.
7. Notify Financial Accounting when the asset is placed in service, substantially complete, disposed of, transferred, impaired, or otherwise changes status.

## 5. What Is Included in Capitalized Cost?

When directly attributable and necessary to place a qualifying asset into service, capitalized cost may include:

- Purchase price or construction cost, net of applicable discounts and credits.
- Freight, shipping, handling, and in-transit costs.
- Site preparation, installation, assembly, and testing before the asset is ready for use.
- Architectural, engineering, design, and other professional services directly related to a qualifying capital project.
- Permits and other directly attributable costs necessary to acquire or construct the asset.
- Qualifying software or SBITA implementation costs, as determined by the Office of Tax and Revenue.
- Other costs specifically required to be capitalized by applicable accounting standards.

The following are generally expensed unless Financial Accounting determines otherwise:

- Routine repairs, preventive maintenance, and service contracts.
- Training and end-user education.
- General administrative or operating costs.
- Data conversion, cleansing, and migration activities that do not qualify for capitalization under applicable standards.
- Post-implementation support, maintenance, and routine upgrades.

- Costs incurred after an asset is placed in service that do not materially improve the asset or extend its useful life.

## 6. Repairs, Maintenance, Replacements, and Improvements

The dollar amount of a project does not by itself determine whether it is capital. The nature of the work matters. A project at or above $50,000 is capitalized as a building or land improvement only when it creates a new asset or materially increases capacity, efficiency, functionality, value, or useful life. Routine maintenance and work that restores an asset to its normal operating condition are expensed even when the total cost is significant.

Large component replacements (for example, roofs, major HVAC systems, elevators, or building systems) should be referred to Financial Accounting when they meet the threshold. The Comptroller's Office will determine whether the replacement should be capitalized and whether any remaining carrying value of the replaced component should be retired.

## 7. Equipment and Bundled Purchases

- Apply the $5,000 threshold to each identifiable equipment unit, not to the total purchase order.
- Include accessories and components in the cost of the equipment unit when they are necessary for that unit to function as intended and are acquired as part of the same initial acquisition.
- Do not combine unrelated items solely because they appear on one invoice or purchase order.
- Do not split a single equipment unit among multiple invoices, funding sources, or purchase orders to avoid capitalization.
- Items below $5,000 are not capital equipment for financial reporting purposes, but items costing $1,500 through $4,999.99 may qualify as Sensitive Minor Equipment under ETSU's Equipment/Movable Property Inventory Control Policy.

## 8. Construction and Renovation Projects

- Qualifying project costs are accumulated as Construction in Progress (CIP) while construction or renovation is underway.
- Project managers should distinguish capital construction/improvement costs from maintenance, operating, move, training, and other noncapital costs when feasible.
- Facilities/Capital Projects should provide Financial Accounting with project cost information and notice of substantial completion or the date the asset is available for its intended use.
- Financial Accounting will transfer completed qualifying costs from CIP to the appropriate asset category and begin depreciation.
- A project's State Building Commission or other capital-project approval status does not, by itself, determine the accounting capitalization treatment.

## 9. Software, Cloud Arrangements, and SBITAs

All significant software acquisitions, implementations, hosted solutions, cloud arrangements, and subscription-based technology contracts should be evaluated early in the contracting process. Departments should not assume that a technology arrangement is an operating expense merely because it is hosted by a vendor.

- Software: current ETSU capitalization threshold is $100,000 for qualifying capitalizable software costs.
- SBITAs: current ETSU capitalization threshold is $60,000 for qualifying arrangements.

- Provide the Tax and Revenue Office the executed contract, all amendments, statement(s) of work, implementation schedule, payment schedule, renewal and termination provisions, and a breakdown of implementation costs.
- Implementation activities must be evaluated by project stage and nature of the cost. Training, maintenance, and many data-conversion or post-implementation activities are generally expensed.
- Contract modifications, extensions, scope changes, and additional modules should be sent to Office of Tax and Revenue because they may change the accounting treatment.

## 10. Leases

Departments must provide lease contracts and amendments to the appropriate contracting offices and, when requested, to Financial Accounting. The Office of Tax and Revenue will determine whether an arrangement is within applicable GASB lease guidance and whether it meets ETSU's $100,000 capitalization threshold. Departments should provide payment schedules, lease terms, renewal and termination provisions, incentives, and other information needed for the accounting determination.

## 11. Donated Capital Assets

Departments receiving donated equipment, land, buildings, art, or other potential capital assets must notify the appropriate Advancement/Foundation and University accounting/property offices. Financial Accounting will determine the amount to record based on applicable accounting standards. Donated equipment remains subject to University inventory-control requirements.

## 12. Year-End and Project Closeout Requirements

- Departments must respond promptly to Financial Accounting requests for open purchase orders, project status, asset location, placed-in-service dates, contract terms, and supporting documentation.
- Facilities/Capital Projects should identify projects that are substantially complete or available for intended use before fiscal year-end, even if final invoices or punch-list work remain outstanding.
- Information Technology and departments should identify significant software and subscription implementations that became operational during the fiscal year.
- Known disposals, trade-ins, losses, impairments, abandonments, and terminated projects must be reported before year-end close.
- Financial Accounting may record accruals, reclassifications, CIP transfers, depreciation/amortization, and other entries needed for accurate financial reporting.

## 13. Quick Decision Table

| Example | Likely Treatment | Why | Action |
|---|---|---|---|
| $4,800 laptop | Expense; inventory review may apply | Below $5,000 equipment capitalization threshold | Determine whether Sensitive Minor Equipment controls apply. |
| $7,500 scientific instrument | Capitalize | Meets equipment threshold and is a long-lived movable unit | Code as directed and ensure property tagging/inventory. |
| $75,000 routine roof patching/maintenance | Expense | Maintains ordinary operating condition | Charge to maintenance/operating expense. |
| $75,000 complete roof replacement that materially extends building life | Potentially capitalize | May qualify as a building improvement above $50,000 | Send scope and cost detail to Financial Accounting. |

| Example | Likely Treatment | Why | Action |
|---|---|---|---|
| $150,000 renovation that changes functionality of space | Likely capitalize | Qualifying building improvement above $50,000 | Accumulate qualifying project costs; identify placed-in-service date. |
| $90,000 software license plus $30,000 implementation | Accounting review required | Threshold applies to qualifying capitalizable software costs; not every implementation dollar qualifies | Send contract/SOW and cost breakdown to Financial Accounting before final classification. |
| Three unrelated $3,000 pieces of equipment on one PO | Expense as equipment | Threshold is applied per unit, not per PO | Apply inventory controls if any item meets sensitive-minor criteria. |
| $65,000 qualifying hosted IT subscription arrangement | Potential SBITA | May meet $60,000 SBITA threshold | Send contract, payment schedule, termination terms, and implementation costs for review. |
| $120,000 multiyear equipment lease | Accounting review required | May meet $100,000 lease asset threshold | Send complete lease terms and payment schedule to Financial Accounting. |

## 14. Departmental Documentation Checklist

- Purchase order, invoice, or other acquisition documentation.
- Executed contract and amendments, when applicable.
- Statement of work and implementation schedule for software/SBITA arrangements.
- Detailed cost breakdown separating equipment, construction, implementation, training, maintenance, data conversion, and other services when applicable.
- Project number and project description for construction/renovation activity.
- Date received, substantially completed, or available for intended use.
- Asset location and responsible department.
- Documentation of trade-in, disposal, transfer, loss, damage, impairment, or abandonment.

## 15. Questions and Escalation

Questions about capitalization treatment should be directed to the Office of Financial Services Comptroller. Departments are encouraged to request review before a significant contract is executed or a complex project is substantially underway. Early review is especially important for software implementations, cloud arrangements, SBITAs, leases, major renovations, component replacements, and transactions involving multiple funding sources.

## 16. Related ETSU Requirements

- Equipment/Movable Property Inventory Control Policy.
- FP-42 Equipment/Movable Property Inventory Control Procedures.
- Disposal of Surplus Personal Property Policy.
- Applicable procurement, contracting, facilities/capital-project, information technology, grants, and gift procedures.

*These procedures are intended for administrative use while the related University policy is under review. If an approved University policy, applicable law, grant requirement, contract term, or accounting standard conflicts with these procedures, the controlling requirement governs. The Office of Financial Services/Comptroller may update technical accounting guidance as standards change.*