

3.08 Capital Assets Reporting Package

Capital Assets - The Basics

- Capital assets are tangible or intangible assets held and used in an entity's operation. For the State of South Carolina, a capital asset must have a useful life of at least 2 years.
- SC Code of Laws Section 10-1-140 requires each State agency to conduct an inventory of all personal property each fiscal year.
- Capital asset adjustments must be entered in SCEIS before Period 13 closes, which is usually around July 22nd.
- Capital assets are recorded at their historical cost, which is the original cost paid to acquire and place the asset into its intended location and condition for use. It includes the consideration paid for the asset, sales taxes, delivery/installation costs, site preparation costs, professional fees, component equipment costs, and insurance premiums paid during construction.
- Historical cost does not include financing costs.

Example - Historical Cost

An agency purchases a 2024 Polaris Ranger 1000 Premium (utility vehicle). The invoice includes:

Polaris Ranger - \$17,900

Flip-down windshield - \$400

Lock & ride sport roof - \$400

4,500 LB winch kit - \$600

Demonstration/training of UTV operation - \$300

2-year maintenance/service contract - \$1,200

Delivery - \$300

Sales tax - \$500

Sales discount - \$2,000

Grand total - \$19,600

What amount should be capitalized?

Capital Assets - The Basics (continued)

Asset Class	Capitalization Threshold	Useful Life
Land & Non-Depreciable Land Improvements	\$0	N/A
Depreciable Land Improvements	\$100,000	3 - 60 years
Buildings & Building Improvements	\$100,000	5 - 55 years
Vehicles	\$5,000	3 - 20 years
Machinery & Equipment	\$5,000	2 - 25 years
Works of Art and Historical Treasures	\$5,000	10 - 25 years
Intangible Assets - Software	\$100,000	3 years
Intangible Assets - Easements	\$0	N/A
All Other Intangible Assets	\$100,000	3 - 38 years

Capital Assets - The Basics (continued)

- DOT should be the only agency using the infrastructure asset class. If your agency has an asset that meets the definition of infrastructure, please use:
 - the depreciable land improvements if the asset would be useful without the presence of any existing buildings OR
 - building and improvements if the asset is only useful with the presence of an existing building.

Capital Asset - The Basics (continued)

Lease Asset Class	Capitalization Threshold
Land	\$0
Buildings	\$0
Vehicles and Equipment	\$5,000
Subscription-Based IT Arrangements (SBITAs)	\$100,000

- Leases for land are amortized over the appropriate useful life UNLESS the lease contains a purchase option that the lessee is reasonably certain they will exercise.

Building or Leasehold Improvements

- Includes additions or renovations to existing buildings after the acquisition of the building. To qualify, one of the following should be met:
 1. Adds square footage to the existing building.
 2. Prepares an existing building for a new use through renovation.
 3. Extends the useful life of the existing building.
- Ordinary repairs and maintenance, such as roof and HVAC system replacements, are not building improvements despite the fact that they may cost a significant amount.
- Extending the useful life of an existing building requires specific improvements in response to a change in the use or contents of the building. Completing a renovation required by deferred maintenance does not constitute an extension of the useful life.
- Building or leasehold improvements should be capitalized separately from the building or lease asset.

Capitalization of Software Development Costs

- Costs incurred during the Preliminary Project Stage should be expensed as incurred. This would include:
 - Conceptual formulation and evaluation of alternatives
 - Determination of existence of needed technology
 - Final selection of alternatives
- Costs incurred during the Application Development Stage should be capitalized until the software is operational. This stage would include:
 - Design of the chosen path
 - Coding
 - Installation to hardware
 - Testing and parallel processing
- Costs incurred after the software is operational, such as maintenance or minor modifications, should be expensed as incurred.
- Training costs should not be capitalized, regardless of what stage they are incurred during.

Capitalized Works of Art and Historical Treasures

- These are individual items or collections of items deemed to be of educational, cultural, or historical value.
- Classified as nondepreciable if the useful life is undeterminable because interest in the objects is expected to continue to be of value to society as a whole for an indefinite period of time.
- Individual items are capitalized if the acquisition value exceeds \$5,000.
- Any additions made to collections acquired prior to June 30, 1999 should be treated as an individual item.
- A collection should be evaluated as a whole for capitalization only if the individual cost of collection items can't be easily determined, in which case the \$5,000 threshold is applied to the collection.

Noncapitalized Works of Art and Historical Treasures

- A collection that was not capitalized as of June 30, 1999 is not required to be capitalized if it meets all three of the following conditions:
 - The collection is held for public exhibition, education, or research in furtherance of public service, rather than for financial gain.
 - The collection is protected, kept unencumbered, cared for, and preserved.
 - The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.
- Agencies with collections that meet this criteria must provide the CGO with documentation explaining why the collection is not capitalized every year for auditing purposes.

Similar Assets Purchased in Groups

- The State's policy, generally, is to apply the capitalization thresholds to individual items rather than to groups.
 - If an agency purchased 15 desks or 100 laptops, the agency would examine the cost of each individual item to determine if it should be capitalized.
- Effective July 1, 2023, the State had to modify this policy and add one exception in order to comply with GASB Implementation Guide No. 2021-1, Question 5.1.
- If any agency purchases a group of similar assets that, individually are below the applicable capitalization threshold, but, in the aggregate, exceed \$1,000,000, please contact Layla Ballard-Sholly at the Comptroller General's Office.
- Situations like this will be handled on a case-by-case basis.

Contact Information for Capital Assets

Layla Ballard-Sholly

Email: lballardsholly@cg.sc.gov

Office Phone: 734-0272