Capital Assets Training
June 24, 2026

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, all capital assets must have a useful life of at least 2 years with the exception of lease and SBITA assets, which must have a useful life (lease term) greater than one year.
- 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 should never include costs for financing, training, warranties, support, maintenance, or repairs.

Capital Assets – Asset Classes

- Land (SCEIS Asset Class 10001) – all parcels of real estate that are owned by the State. Land is never depreciated.
- Land Improvements – Improvements that continue to retain their usefulness without the presence of any existing buildings.
  - **Depreciable land improvements** (SCEIS Asset Class 10003) deteriorate with use or with the passage are time. Examples include fencing, landscaping, lighting, parking lots, paving, signs, drainage systems, and power lines.
  - **Nondepreciable land improvements** (SCEIS Asset Class 10002) produce *permanent* benefits, primarily related to preparing land for its intended use. Examples include filling and grading costs.
    - If an entity purchases a piece of land and demolishes a structure on the land that was never used by the entity, the cost of demolishing the building is capitalized as a nondepreciable land improvement.
- Buildings (SCEIS Asset Class 11000) – Permanent (immovable) structures used to house people or personal property.

Capital Assets - Asset Classes (continued)

- Building Improvements (SCEIS Asset Class 11100) - 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, including roof and HVAC system replacements, are not building improvements, even if they 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 improvements should be capitalized separately from the building asset.**
- Leasehold Improvements (SCEIS Asset Class 11200) – capitalizable improvements to a building that is leased rather than owned.
    - **Leasehold improvements should be capitalized separately from the lease asset.**

Capital Assets - Asset Classes (continued)

- Infrastructure (SCEIS Asset Class 10004) – assets that may be a part of a network of long-lived capital assets that are utilized to provide a particular type of public service, are stationary in nature, and can be maintained or preserved for a significant number of years. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, dams, and communication networks.
  - **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:

    a) the depreciable land improvements asset class if the asset retains its usefulness without the presence of any existing buildings OR

    b) the building improvements asset class if the asset is only useful with the presence of an existing building or group of buildings.

Capital Assets - Asset Classes (continued)

- Assets Under Construction (AUC) – SCEIS Asset Class 13001
  - Also known as Construction in Progress (CIP)
  - The balance reported in AUC represents the costs incurred for capital assets that are being constructed, developed, implemented, or installed over time.
  - AUCs are capital assets that are not yet ready and available for their intended use.
- Vehicles (multiple SCEIS Asset Classes) - A mechanically operated device used for transporting people or goods from one location to another; includes all automobiles, trucks, vans, buses, aircraft, boats, **trailers**, and other vehicles used for operations.
  - **Primary purpose must be transportation on ground, air, or water (liquid or frozen).**
- Machinery and Equipment (multiple SCEIS Asset Classes) – Any movable, tangible assets used for operations that do not meet the definition of vehicles. Examples include furniture and fixtures, office equipment, and most construction equipment.

Movable vs. Immovable Equipment

- Movable equipment should be capitalized using a machinery/equipment asset class.
- Immovable equipment must be capitalized as either a building improvement, leasehold improvement, or depreciable land improvement.
  - If the equipment is attached to a building and/or would not continue to retain its usefulness without the presence of an existing building or structure → building/leasehold improvement
  - If the equipment would continue to retain its usefulness without the presence of an existing building or structure → depreciable land improvement
- What exactly is considered “immovable”?
  - Asset is attached to a building or to the ground in such a way that it cannot be relocated without the extensive use of tools and/or the process of relocating the asset will result in significant damage to the asset and/or will incur significant cost.
    - If item is attached with a few bolts or the process of relocating the asset results in minor cosmetic damage, the asset is not necessarily considered “immovable”.
    - May also be helpful to ask, “If we relocated, would we leave this item or take it with us?”

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.
- Nondepreciable Works of Art and Historical Treasures – SCEIS Asset Class 25000
- Depreciable Works of Art and Historical Treasures – SCEIS Asset Class 25100

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.

Capital Assets – Intangible Asset Classes

- Easements – A legal agreement that gives one party (party A) the right to go onto, and/or to use, another party's (party B's) property for specified purposes without disturbing party B's ownership of or ability to use the property for other purposes. The easement spells out the rights the landowner retains and the restrictions on use of the property, which are negotiated between the landowner and holder of the easement. Examples include utility easements, conservation easements, and right-of-way/access easements.
  - Easements should be amortized unless they are considered to have an infinite useful life.
    - Nonamortizable Easements – SCEIS Asset Class 26000
    - Amortizable Easements – SCEIS Asset Class 26501

Capital Assets – Intangible Asset Classes (continued)

- Intellectual Property Rights - Legal protections granted for creations of the mind that give the owner or creator the exclusive right to control how the creation is used, copied, or shared.
- Intellectual property rights include:
  a) copyrights (protects original works of authorship, such as books, music, film, art, and software),
  b) patents (protects inventions), and
  c) trademarks (protects brand identity, including brand names, logos, and slogans).
  - Intellectual property rights should be amortized unless they are considered to have an infinite useful life.
    - Nonamortzable Intellectual Property Rights – SCEIS Asset Class 26001
    - Amortizable Intellectual Property Rights – SCEIS Asset Class 26502

Capital Assets – Intangible Asset Classes (continued)

- Right-to-Use Lease Assets – an intangible right to control the use of another entity's nonfinancial asset (underlying asset) for a specified period of time, which is conveyed via a lease (contract).
  - Lease term must be greater than 1 year in order to qualify for capitalization.
  - Additional factors determine whether a lease qualifies for capitalization. Please refer to Section 3.9 of the CGO's Reporting Policies and Procedures Manual for additional guidance.
  - SCEIS Lease Asset Classes:
    - Nondepreciable Lease Land – 10029
      - **Should only be used if the lease includes an option to purchase the land AND your agency is reasonably certain it will exercise the option to purchase the land.**
    - Depreciable Lease Land – 10039
    - Lease Buildings – SCEIS Asset Class 11009
    - Lease Machinery & Equipment – SCEIS Asset Class 15009
    - Lease Vehicles – SCEIS Asset Class 14100

Capital Assets – Intangible Asset Classes (continued)

- Software (SCEIS Asset Class 26500) – the intangible counterpart to physical hardware that tells the hardware exactly how to function and what tasks to execute.
  - Software assets include costs for perpetual software licenses and/or internally-developed software.
- Subscription-Based Information Technology Arrangements (SBITAs) - an intangible right to control the use of another entity's software for a specified period of time, which is conveyed via an agreement (contract).
  - Subscription term must be greater than 1 year in order to qualify for capitalization.
  - Additional factors determine whether a SBITA qualifies for capitalization. Please refer to Section 3.11 of the CGO's Reporting Policies and Procedures Manual for additional guidance.

Capitalization Thresholds

Assets with capitalizable costs exceeding the applicable threshold below must be capitalized. Unless otherwise noted, the below thresholds should be applied to individual items.

Capital Asset Class	Threshold Through 6/30/2026	Threshold Effective 7/1/2026
Land and Nondepreciable Land Improvements	$0 (all items capitalized)	$0 (all items capitalized)
Depreciable Land Improvements	$100,000	$100,000
Building and Building Improvements	$100,000	$100,000
Leasehold Improvements	$100,000	$100,000
Vehicles	$5,000	$5,000
Equipment	$5,000	$5,000
Works and Art and Historical Treasures	$5,000	$5,000
Nonamortizable Easements	$0 (all items capitalized)	$0 (all items capitalized)
Amortizable Easements	$100,000	$100,000
Nonamortizable Intellectual Property Rights	$0 (all items capitalized)	$0 (all items capitalized)
Amortizable Intellectual Property Rights	$100,000	$100,000
Software	$100,000	$100,000
Lease Land	$0 (all items capitalized)	$100,000 per lease agreement
Lease Buildings	$0 (all items capitalized)	$100,000 per lease agreement
Lease Equipment	$5,000 per individual item	$100,000 per lease agreement
Lease Vehicles	$5,000 per individual item	$100,000 per lease agreement
SBITAs	$100,000 per contract	$100,000 per contract

Lease Asset Threshold Changes Effective July 1, 2026 (Fiscal Year 2027)

- The threshold will be applied per lease agreement, regardless of the cost per individual asset being leased, EXCEPT when a single lease agreement conveys the right to use multiple assets that fall under different major asset classes.
  - When this occurs, the threshold will be applied to the total for each group of assets in the lease agreement that fall within the same major asset class.
- Exception Example 1:
  - A lease agreement conveys the right to use 25 pieces of various types of equipment and time-limited software licenses. The total PV of the future lease payments for the equipment is $50,000 and the total PV of the future lease payments for the software licenses is $70,000.
  - Nothing capitalized from this lease agreement because the threshold has not been exceeded for the lease equipment or software licenses (SBITAs).
- Exception Example 2:
  - A lease agreement conveys the right to use 100 pieces of various types of equipment and time-limited software licenses. The total PV of the future lease payments for the equipment is $125,000 and the total PV of the future lease payments for the software licenses is $70,000.
  - An equipment lease asset would be capitalized with a historical cost of $125,000, but the SBITA portion of the lease agreement would not be capitalized.

Allowable Useful Lives for Depreciation/Amortization

Capital Asset Class	Useful Life Through 6/30/2026	Useful Life Effective 7/1/2026
Land and Nondepreciable Land Improvements	N/A	N/A
Depreciable Land Improvements	3 - 60 years	3 - 60 years
Building and Building Improvements	5 - 50 years	5 - 50 years
Leasehold Improvements	Shorter of the useful life of the underlying asset (5 - 50 years) OR the remaining lease term	Shorter of the useful life of the underlying asset (5 - 50 years) OR the remaining lease term
Vehicles	3 - 20 years	3 - 20 years
Equipment	2 - 25 years	2 - 25 years
Works and Art and Historical Treasures	10 - 25 years	10 - 25 years
Nonamortizable Easements	N/A	N/A
Amortizable Easements	2 - 50 years	2 - 50 years
Nonamortizable Intellectual Property Rights	N/A	N/A
Amortizable Intellectual Property Rights	10 - 50 years	10 - 50 years
Software	3 years	3 - 7 years
Lease Land	Length of lease agreement	Length of lease agreement
Lease Buildings	Length of lease agreement	Length of lease agreement
Lease Equipment	Length of lease agreement	Length of lease agreement
Lease Vehicles	Length of lease agreement	Length of lease agreement
SBITAs	3 years	Length of the contract

Capital Asset Transactions That Cross Fiscal Years

- If a capital asset is placed in service at the end of the fiscal year but not paid for until the following fiscal year, the capital asset must still be reflected at fiscal year end.
  - Example: A piece of equipment is ordered on May 1, 2026. It is received and placed into service on June 1, 2026. The invoice is not received until July 31, 2026.
    - Agency would need to report an adjustment on their 3.08 Capital Assets Reporting Package so that the capital asset is reflected in the FY26 year-end balances. A corresponding payable would be reported on the 3.12 Accounts Payable Reporting Package.
    - For this reason, agencies should prepare the 3.12 Accounts Payable Reporting Package prior to the 3.08 Capital Assets Reporting Package to help identify potential capital asset adjustments that may need to be reported on the 3.08 package.
    - Other adjustments may include prior year payables that result in increases to Assets Under Construction (AUC).
  - Capital asset inventories may also result in adjustments that impact prior fiscal years. Please contact the CGO to determine if these adjustments need to be reported on the 3.08 Capital Assets Reporting Package (even if it's corrected in SCEIS prior to fiscal year end).
    - Example: An asset purchased five years ago was never added to SCEIS or an asset was retired five years ago and never retired in SCEIS.

Depreciation and Amortization in SCEIS

- SCEIS calculates and posts depreciation/amortization monthly.
- Regardless of what day of the month an asset is capitalized in SCEIS, a full month of depreciation/amortization expense will post for that month.
- Depreciation does not post for the month in which an asset is retired.
- If you create an asset in SCEIS before or after the month in which the asset is placed in service, the depreciation/amortization for the asset may be incorrect. This is further complicated if this occurs in different fiscal years.
- Agencies **must** contact the CGO for further instructions on how to ensure the asset is correctly depreciating/amortizing.
  - The CGO may work with your agency and the SCEIS Team to change the asset's depreciation start date, post an unplanned depreciation adjustment, and/or adjust the expired useful life of the asset.

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.
- 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 do BOTH of the following:

  a) Contact the Comptroller General's Office as soon as you are aware of the purchase.

  b) Answer Yes to Question 14 on the 3.08 Capital Assets Reporting Package and provide the information requested.
- Situations like this will be handled on a case-by-case basis.

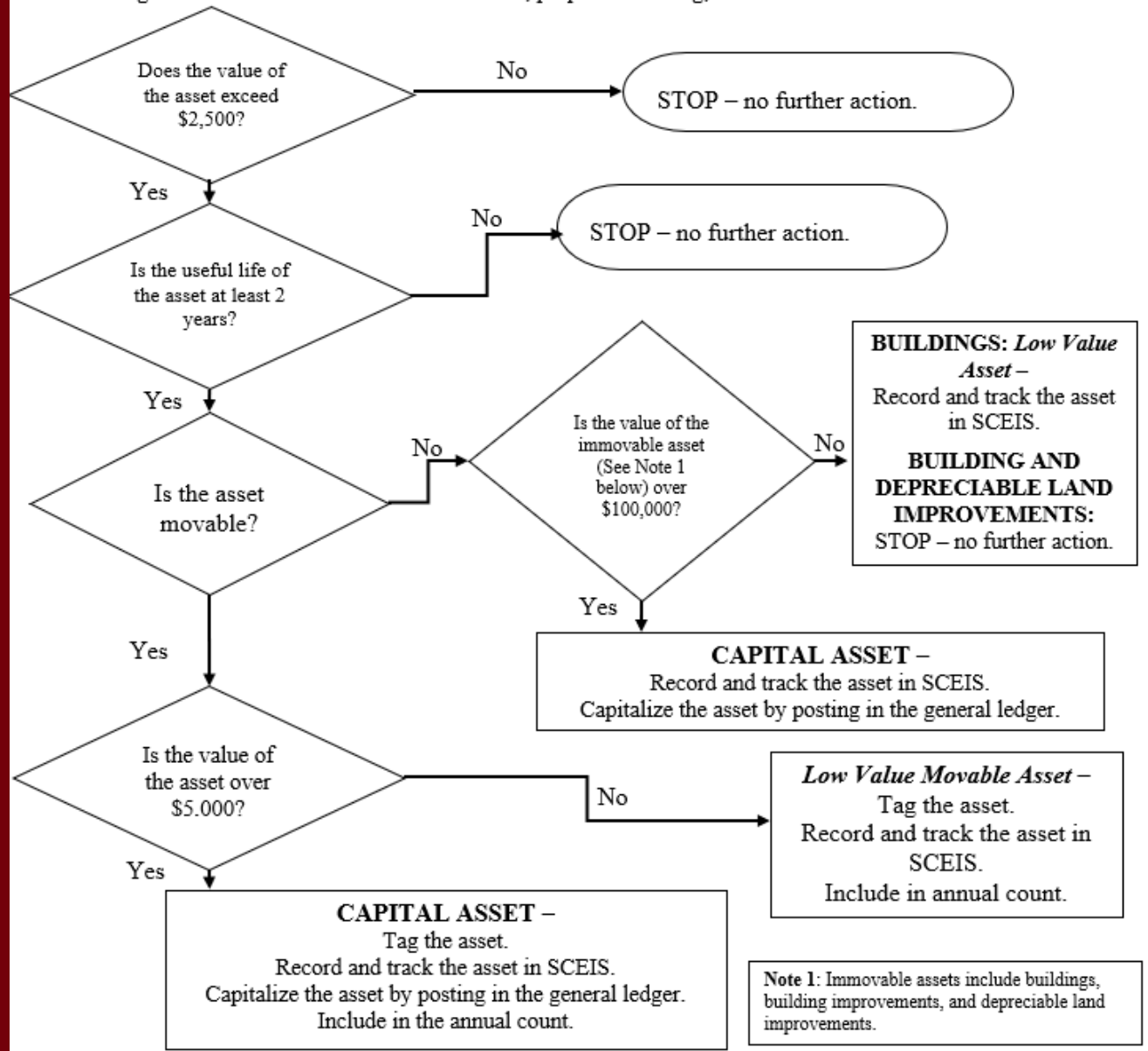
Low Value Assets

- All tangible assets purchased that have a useful life of at least 2 years, but do not meet the applicable capitalization threshold.
- Low Value Assets are NOT capital assets.
- Low Value Assets are fully expensed at the time of purchase and are only assigned an asset number in SCEIS for inventory/tracking purposes.
- Some items are required by State policy to be recorded and tracked in SCEIS as a low value asset.
- Building improvements, depreciable land improvements, and all intangible assets except lease assets with a historical cost of $100,000 or less are not required to be recorded as low value assets.
- Lease assets not meeting the applicable threshold are also not required to be recorded as low value assets.

DETERMINING CAPITALIZATION VS. LOW VALUE ASSET FOR TANGIBLE ASSETS

Low value assets (LVAs) are defined as all assets purchased with a value in excess of $2,500 that have a useful life of at least 2 years but do not meet the capitalization dollar threshold criteria ($5,000 for movable assets or $100,000 for all other assets). Unless specified otherwise below, SCEIS functionality must be used to record and track LVAs. Intangible assets falling below the applicable threshold are not required to be recorded as LVAs in SCEIS.

The following decision tree should aid in identification, proper accounting, and control treatment:



Note 1: Immovable assets include buildings, building improvements, and depreciable land improvements.

Donated Capital Assets

- Donated capital assets should be valued at the capital asset's **acquisition value** at the date of donation.
  - The acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the date of donation.
    - Acquisition value is the "entry price" required to acquire an asset, whereas fair value is the "exit price" that would be received if the asset were sold.
      - Key difference between the two usually due to ancillary costs that would be paid if you were the buyer rather than the seller.
- Acquisition value is added to assets in SCEIS using ABZON (Transaction Code AS03).
  - GL Account 4310080000 – Non-Cash Asset Donations is used as the offsetting account and ZDO (Donations) is used as the transaction type.
  - If an agency wishes to record a capital asset donation in a 1 series fund (General Fund), fund 10020000 must be used.

How Do I Determine What Should Be Considered a Single Asset?

- Some assets may be a “system” of various components.
  - Can be very subjective
  - Can the individual component function independently without the other components?
    - Example: Security Camera System
      - May include various types of cameras, cables, network video recorder, and external hard drive.
      - All items could be capitalized as one Security Camera System asset as long as all components are:
        a) placed in service at the same time,
        b) dependent upon each other to function, and
        c) collectively meet the applicable capitalization threshold (security camera systems can be classified as equipment or building improvements, depending on the circumstances).
  - Should only consider items collectively that are of the same major asset class
    - Example: You purchase a copier with software pre-installed.
      - If you have a separate charge or cost for the software on the invoice, then the software should be considered separately for capitalization.
      - If the software is listed on the invoice but not assigned its own cost and/or included with the cost of the copier, the software does not have to be considered separately for capitalization.
  - Should also consider asset location

Capitalization Policy for Audio Visual (A/V) System(s) – Effective March 24, 2026

- Agencies should comply with the following only when processing purchase orders or invoices for A/V system purchases/upgrades with a total cost of $1,000,000 or less:

  1) Agencies should apply capitalization criteria and low value asset criteria to each individual line item of equipment, including sales or use tax and any allocated costs mentioned in #2 below.

     Exception 1: If there are individual line items that are to be assembled into a single unit (excluding items listed in Exception 2), the assembled unit will be accounted for as one asset if the combined cost exceeds the applicable threshold.

     Exception 2: Mounts, bulk cables and wires, and generic cables (ex. HDMI, USB, RCA, Coaxial, Optical, standard power cords, etc.) should be expensed as supplies.

  2) Costs for delivery/shipping, installation, design, engineering, testing, commissioning, and any other professional services necessary to place the A/V system into its intended location and condition for use should be allocated on a reasonable basis to the applicable line items of the invoice. Training costs should be expensed as incurred.

  3) General supply costs should be expensed as incurred.

  4) Any costs for software licenses, including sales or use tax, should be considered for capitalization using the applicable criteria for software or SBITAs.

- If your agency has an A/V system purchase or upgrade with a total cost that exceeds $1,000,000, please contact the CGO to determine if the purchase or upgrade will need to be handled in a manner different than the one prescribed above.

Capital Assets – Miscellaneous Information

- Please make sure you retire SCEIS asset numbers for completed/terminated lease & SBITA assets.
  - Retirements should not be done until the day after the lease or contract has ended or terminated.
- Do not add value to existing assets for upgrades, modifications, or additions made after the item was originally capitalized.
  - A new asset should be created for the addition or upgrade.
- Any capital assets that will be developed, constructed, or installed over time should have costs accrued via a project in SCEIS.
  - Do not add costs to non-AUC assets over a period of time!

Capital Projects In SCEIS

- Capital Projects in SCEIS use “WBS Elements” to determine how a particular posting should be handled.
- Capital Projects in SCEIS are set up to account for a project’s budget and to track the project’s expenditures/revenues.
- Three main types of WBS Elements:
  - Capital (typically ends in .AA000) – Expenditures tagged with capital WBS elements are capitalized to an AUC asset in SCEIS.
  - Expense (typically ends in .AB000)
  - Revenue (typically ends in .AZ000)
- Some capital projects may not actually involve costs that should be capitalized. In these cases, all costs would be posted to the expense WBS element.
  - Good practice to set these projects up without a capital WBS element if you know ahead of time that none of the project’s cost will be capitalized.
  - Projects should never be set up without an expense WBS element.

Capital Projects In SCEIS (continued)

- The Executive Budget Office's threshold for capital projects is currently $250,000. Any capital project exceeding that threshold will be set up as a "C" project in SCEIS.
  - Other types of projects can be set up at an agency's request. Agencies should use projects for any capital assets that will be constructed, developed, implemented, or installed over time and will otherwise qualify for capitalization.
    - "I" Projects can be set up for Software or SBITA assets that must be developed and/or modified over time before they can be placed in service.
    - "O" Projects can be set up for all other types of capital assets/projects.
- Capital projects may be set up in a way in which the project covers work being done at multiple locations/buildings. If this is the case, your agency still needs to assess whether the project qualifies for capitalization for each location/building and not the entire project.
  - If it does, your agency should account for the costs per location/building and move the costs for each location/building from AUC to the final asset class based on when the project is ready and available for use for each respective building/location, not when the entire project is complete.
  - When the asset is moved from AUC to the final asset class, a different asset number should be used for each building/location and not the entire project.

Project Costs That Should Not Be Capitalized

- Projects for a capital asset that will not meet the applicable threshold
  - For projects involving multiple capital assets, the threshold is applied to each asset within the project, not the project overall.
- Phase I costs, preliminary project stage costs, or costs incurred to determine the feasibility/scope of the project (i.e., costs incurred before the project is approved to proceed with construction or development).
- Low value asset purchases
- Projects that qualify as repair or maintenance
- Training
- Support/maintenance costs
- Financing costs
- Costs **incurred** after the asset is placed in service (unless exception is used)

Clarifications for Capital Projects and Other Types of AUC

- In addition to meeting the $100,000 capitalization threshold, there are three criteria for determining if a building repair/maintenance/improvement/renovation project should be capitalized:
  - Adds square footage or adds a new feature, such as installing an HVAC system or a sprinkler system to a building that didn't previously have one
  - Prepares an existing building or room within the building for a new use (ex. a renovation to change a conference room into a kitchen)
  - Extends the useful life of the building.
- When determining if a project extends the useful life a building, please keep in mind that there are many building projects that may be substantial in cost but are expected to be done throughout the normal course of a building's life cycle (i.e., the projects preserve the building's useful life rather than extending it).
  - Examples of these types of projects may include, but are not limited to, roof replacements, HVAC replacements, bathroom fixture replacements, new flooring, water heater replacements, and interior/exterior repainting.
- If a building is fully depreciated or close to being fully depreciated, it may be acceptable to capitalize these types of projects. The age of the building and how many years remain in the useful life assigned to the building must be considered when determining if a project will extend the building's useful life.

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.

Substantially Complete

- The point at which the capital asset being constructed or developed is ready and available for its intended use, which may or may not occur prior to the project being 100% complete.
  - Small components, cosmetic work, and/or “punch list” items may still need to be completed, but the project is sufficiently complete to allow for use or occupancy of the asset for its intended use without undue interference.
- All assets under construction (AUC) should be moved from the AUC asset class to their final asset class when the asset is ready and available for its intended use.
- If this occurs before the project is complete, any remaining project expenditures **incurred** after the date the asset is placed in service should be expensed (i.e., not added to the final value of the asset).
- If an agency is waiting to pay additional costs incurred before the asset was placed in service, the agency should still proceed with moving the balance from AUC to the final asset class.
  - This ensures the asset begins depreciating at the correct point. Any additional costs that need to be capitalized but are not paid until after the initial settlement can be settled later to the same final asset.

Substantially Complete (continued)

- If the asset is ready and available for its intended use, but the project is not yet complete, agencies may elect to wait until the project is 100% complete before moving the asset from AUC to the final asset class if both of the following are true:
  - **The remaining project expenditures do not exceed 10% of the project total or $100,000, whichever is less AND**
  - **The project will be completed in 3 months or less from the date the asset became ready and available for its intended use.**
- Example: A building being constructed reaches the point where it can be occupied (i.e., a certificate of occupancy has been issued), but some rooms in the building still need to be painted and other "punch list" items remain. The building should be capitalized on the date the certificate of occupancy has been issued UNLESS the agency elects to use the option provided above and meets all of the applicable criteria for doing so.

Retainage

- Also referred to as Retainage Payable or Contract Retentions
- The portion of a contract price that is withheld or retained from payment to the contractor until the project is complete.
- The withheld amount is retained for timely completion, correction of defects, and compliance with other requirements of the contract.
- Retainage only occurs if the contract requires it.
- A liability for the amount withheld should be recognized as a Retainage Payable (Contract Retentions Payable).
- The amount withheld for any capitalizable costs should be reflected in AUC.
- Retainage should not be included the amounts reported for outstanding commitments.

Outstanding Commitments

- Commitments are promises to pay for goods and/or services to a party outside of State government and typically result from executed (signed) contracts.
- Agencies should only report commitments that:
  - a) were made prior to and still existed as of June 30,
  - b) had not yet been paid as of June 30, and
  - c) related to goods and/or services that had not yet been provided as of June 30.
- Commitments related to capital assets should be reported on Form 3.08.2; all other types of commitments should be reported using the 3.16.4 Misc Commitments Form.
- Outstanding commitments for capital assets may result from outstanding construction commitments, executed lease or SBITA agreements, and/or executed contracts for the purchase of capital assets.

Outstanding Construction Commitments

- Commitments resulting from executed (signed) contracts for construction or development of new capital assets or to repair or maintain existing capital assets.
- If the work required by the contract is not complete, a remaining commitment or outstanding commitment exists for the contract.
- Outstanding construction commitments in excess of $100,000 per the following categories must be disclosed on the 3.08 Capital Assets Reporting Package:
    - Capital Projects
    - Repair and Maintenance
    - Software Development
    - SBITAs

Calculating the Amount of Outstanding Construction Commitment

1. Determine your construction projects in progress at June 30.
2. Compute the outstanding commitment for each project (capital projects should be determined separately from repair/maintenance projects) in progress at June 30 as follows:

   The Contract Price

   Less: Amounts the State has paid for the contract from the start of the project through June 30.

   Less: Amounts relating to the project that your agency has reported as accounts payable or retainage payable as of June 30 of the current fiscal year.
3. After the outstanding commitment has been computed for each project, add together the outstanding amounts within each of the three categories (software development, capital projects, and repair and maintenance).
4. Any construction commitments for SBITAs should be added to any outstanding commitments for Executed SBITA agreements and reported if the total exceeds $100,000.

Other Outstanding Commitments for Capital Assets

- Executed Lease or SBITA Agreements
  - Leases or subscription agreements that were executed (signed) prior to June 30 and that will be capitalized as a lease or SBITA asset after June 30.
  - While the lease or SBITA asset will only be capitalized at the present value of the payments expected to be made during the lease term (the sum of principal payments per the lease or SBITA calculator), the commitment amount reported here should also include the interest portion from the lease or SBITA calculator.
- Executed Contracts for the Purchase of Capital Assets
  - Contracts that were executed (signed) prior to June 30 for the purchase of assets that will be capitalized after June 30.

Software – How To Classify Costs?

- Software – How to classify costs?
  - Perpetual software licenses or internally-developed software with capitalizable costs exceeding $100,000 → Software Capital Asset
  - **Time-Limited** Software Licenses
    - Capitalizable costs exceeding $100,000 and other GASB 96 criteria are met → SBITA Capital Asset
    - Doesn’t qualify as a SBITA → Expense
      - May need to report as a prepaid expense