

Complete Policy Title: Capital Assets (Accounting for)	Policy Number: CA-01
Approved by: Assistant Vice-President Administration and CFO	Date of Most Recent Approval: April 2019 Effective May 1, 2019
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Responsible Executive: Assistant Vice-President Administration and CFO	Enquiries: Questions regarding this document can be addressed at finserv@mcmaster.ca
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Introduction and Purpose

The university capitalizes tangible and intangible assets with a useful life of more than one year above the dollar thresholds outlined below. Tangible assets include land, buildings and equipment. Intangible assets (such as software) are identifiable non-monetary assets without physical substance. They are separately identifiable and controlled, and have future economic benefits. The Nuclear Reactor is a specialized resource for the University. The department maintains its own fixed asset records, which are included in the University's books at year-end.

This policy outlines in more detail the specifics associated with the capital assets accounting policy included in the University's audited financial statements. This policy outlines how capital assets are recognized, measured, and classified. It also outlines the University's capital accounts and estimated useful lives.

Scope

- University wide

Definitions

- **Capital Assets** – Tangible and intangible assets that are used to carry out the business of the University with a useful life of greater than one year and a value of greater than the threshold noted in the charts below.
- **Betterment** – A renovation or improvement to an existing asset that adds additional functionality or extends its original useful life. Generally projects less than \$200,000 do not extend the useful life of the asset, as they are typically repairs and small renovations. These projects will be expensed.
- **Perpetual Software License** – A software license where the University retains the right to use the software without an ongoing subscription.

Policy and Responsibilities

At the time of acquisition, the requestor must follow the policies for University purchases and capital projects. It is the responsibility of the requestor and approver to ensure the correct account (from the charts below) is selected, at the time of acquisition.

The chart below outlines the asset categories and dollar thresholds for capitalization of purchases.

Classification	Threshold	Account	Estimated life (years)
All funds except Capital Fund (60) and Nuclear Reactor			
Equipment	\$5,000	610000	5
Vehicles	\$5,000	610010	5
Furniture & Fixtures	\$5,000	610015	5
Computer Equipment	\$5,000	610030	3
Software*	\$5,000	610040	10
Library Acquisitions	\$1	680xxx	5
Capital Fund (60)			
Land	\$1	170000	N/A
Site Improvements	\$200,000	170010	10 – 40
Buildings & Betterments	\$200,000	170020	10 – 40
Equipment & Furniture	\$5,000	170030	5
Construction in Progress ***		170060	N/A
Leasehold Improvements	\$200,000	170080	10 – 40
Nuclear Reactor			
Renovations & Alterations**	\$200,000	170022	10 – 40
Equipment/Vehicles/Furniture	\$5,000	170032	5
Computer Equipment	\$5,000	170042	3
Asset Retirement Obligation		170070	Asset Specific

* The software license must be a perpetual license

** The renovation or alteration must represent a betterment. All those between \$100,000 and \$200,000 will be reviewed. Renovation projects are managed through the Facilities department.

*** While undergoing construction, assets will be recorded under Construction in Progress until such time that the asset is substantially complete and becomes available for use. See Appendix A for details.

Other Related Policies and Procedures:

- Capital Assets (Tracking and Disposition) <https://financial-affairs.mcmaster.ca/resources/>
- Strategic Procurement Policy, SP-01 <https://financial-affairs.mcmaster.ca/resources/sp-01-strategic-procurement-policy/>

Appendix A – Substantial Completion (Construction projects)

Costs for construction projects are accumulated in the university's project costing ledger in Mosaic in Fund 60. As projects are completed and become 'available for use' the balances are transferred from Construction in Process and either expensed or set up as assets (complete new building or betterment) to be amortized. The annual process is as follows:

Facilities project managers update the status of projects in Mosaic. For example; expected completed date, percentage complete, etc. Throughout the year, and at fiscal year end, the senior finance manager in facilities also reviews all projects to determine treatment for accounting purposes.

1. Projects that are showing as 100% complete in the Facilities system are reviewed with the Project Manager and/or the Director of Design and Construction to confirm project can be closed and capitalized (if a betterment) or expensed. In certain situations, projects may stay open to allow for deficiencies to be addressed, however if the asset is available for use, it will be amortized for accounting purposes and closed when all deficiencies are addressed.
2. Projects that are showing as 90% complete or more are reviewed with the Project Manager and/or the Director of Design and Construction to determine if they are substantially complete and available for use. For example, occupancy has been given and therefore the asset is available for use, however an additional floor could still be under construction. Projects that are determined to be substantially complete and available for use will be amortized for accounting purposes, and the project will be closed at a later date.
3. All other projects will remain in CIP for the current fiscal year end, and reviewed again at the next fiscal year end.

NOTE: Projects posted on Commercialization News as substantially completed is a requirement of the Lien Act to allow for the release of the holdback. This only refers to the main contract being substantially completed. This does not always result in the asset being available for use or substantially completed in accounting terms. For example, additional work such as furniture and equipment may still need to be installed.