

Complete Policy Title: Capital Assets	Policy Number: CA-01
Approved by: Assistant Vice-President Administration and CFO	Date of Most Recent Approval: Effective May 1, 2022
Date of Original Approval: June 2013	Supersedes/Amends Policy dated: Capital Assets (Accounting for) May 2019 Capital Assets (Tracking and Disposition) January 2021
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

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.

The University is committed to ensuring that its physical assets are purchased, tracked, and disposed of in the most effective and efficient manner. This policy is intended to balance the cost associated with the tracking of small dollar assets with the benefits of permanently identifying and tracking individual assets.

Purpose

This policy outlines in more detail the specifics associated with the capital assets accounting policy included in the University's audited financial statements, including how capital assets are recognized, measured, and classified. It also outlines the University's capital accounts, estimated useful lives, and acceptable approaches for transferring appropriations from current operations to capital.

In addition, it identifies responsibility and procedures for safeguarding and tracking assets, disposing of surplus assets using a method that is fair and maximizes any possible remaining value. Finally, it identifies an approved crime prevention program to protect University-owned assets.

Scope

- University wide

Definitions

- **Appropriations** – Surplus or deficit funds carried forward from the previous year within the budget unit.
- **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

Accounting for Capitalized Assets

At the time of acquisition, the requestor must follow the policies for University purchases and capital projects <https://financial-affairs.mcmaster.ca/resources/sp-01-strategic-procurement-policy/>. 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	\$10,000	610000	5
Vehicles	\$10,000	610010	5
Furniture & Fixtures	\$10,000	610015	5
Computer Equipment	\$10,000	610030	3
Software*	\$10,000	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	\$10,000	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	\$10,000	170032	5
Computer Equipment	\$10,000	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.

Acceptable Approaches for Capital Transfers from Operations

McMaster maintains several funds for budgeting and accounting that are consolidated in the financial statements. Accumulated surpluses are retained in net assets. From time to time, funds held in net assets are deployed for capital projects, resulting in a permanent transfer from net assets into the capital fund. Principles regarding the intention of permanent transfer and the approval by project on deployment of funds are outlined below. Financial statement treatment of each approach is shown in Appendix B.

1. Permanent commitments toward capital projects

Transfers into a capital project appear in the financial statements moving funds from internally restricted departmental appropriations to Facility Services projects or the McMaster Capital Reserve. The nature of these transfers is permanent.

- a. Transfers into a Facility Services project account
Transfers must be approved by the responsible Vice-President as permanent transfers. Spending cannot occur until the project is approved following the University by-laws. Upon approval the funds move to capital reserves as shown in the financial statement notes in Appendix B.
- b. Transfers into the McMaster Capital Reserve
Transfers require approvals from either the responsible Vice-President, the Budget Committee, or another appropriate Board standing committee, such as the Planning and Resources Committee. The funding into this reserve is monitored annually by the Planning and Resources Committee both as a single report and within the debt strategy. Commitments and outflows from the reserve are allocated by project following approval in accordance with the University by-laws.

2. Temporary transfers toward capital projects

Transfers from departmental appropriations requiring flexibility to return funds if the project does not proceed can occur within the Operating Fund by transferring funds into another envelope, either existing (e.g. Academic Priorities) or new (e.g. Academic Capital Priorities). This method allows funding to move out of appropriations and into a separately managed capital holding envelope, which can later be transferred into the Facility Services capital projects when ready to make a permanent commitment.

Approved Methods for Numbering and Marking of Assets

1. Uniquely Numbered McMaster Asset Tags

At the time of acquisition Strategic Procurement will provide a uniquely numbered McMaster asset tag to departments and faculties for attachment to capital assets with an initial value of greater than \$50,000.

2. Identifiable Security Number

Moveable assets or property may have also be marked with a department specific **identifiable** security number, available from Security Services. The methods in place at the University have included the use of an Operation Provident Number and STOP plate/bar code.

Operation Provident Number - One of the approved methods of identifying University property which is part of a national numbering system whereby a number, provided by Security Services, is engraved or tagged on a piece of equipment.

· STOP Plate - The second approved method of identifying University property whereby a permanently attached security plate with an identifiable number is uniquely registered to the faculty or department and can be provided by Security Services.

Department Procedures for Managing Purchased Assets

1. Protection of Moveable Assets and Equipment:

Keep moveable assets and equipment secure by:



- Routinely checking that such assets are in place;
- Properly keying and locking doors;
- Maintaining equipment in locked premises;
- Affixing equipment with the use of locking devices or fasteners;
- Storing portable items such as cameras and laptop computers in locked cabinets or drawers;
- Refrain from storing lap tops in vehicles
- Installing alarms systems in high risk areas
- Ensuring that door locks are engaged and functioning when leaving areas unattended;
- Maintaining departmental control and restriction of keys by updating key distribution lists on a quarterly basis;
- Maintaining an inventory of assets
- Reporting the presence of suspicious persons or behaviour to Security and Parking Services, noting their clothing and physical characteristics;
- Reporting missing equipment immediately to Security and Parking Services (Ext. 24281).

2. Inventories:

- Moveable assets and equipment having a value between \$10,000 and \$50,000 should be inventoried by the department in order to qualify for reimbursement in case of loss.
- For items with values above \$50,000 Strategic Procurement will maintain the University's centralized inventory system and issue to departments uniquely numbered McMaster asset tags which departments and faculties must affix to the items. Information required for the inventory shall include:
 - Date inventory last confirmed;
 - Item description;
 - Model number;
 - Year of purchase;
 - Supplier;
 - Location;
 - Purchase price including tax and duty;
 - Funding source (e.g. Research funds, Departmental Operating funds)
 - Provident number/Identifiable security number/Unique McMaster item number tag
 - User
- Departments and Faculties should maintain their own records for capital items below the \$50,000 threshold. Records must be available in order to qualify for reimbursement from the university's insurance reserve in the case of loss or damage.
- Departments and Faculties are responsible to ensure that appropriate security measures are in place and maintained to protect the loss of such assets and equipment.

3. Identification of Assets:

Examples of assets and equipment to be engraved or tagged include:

- A.V. Equipment
- Cameras

- Computers
- Handheld Computers
- Fax Machines
- Laptops
- Monitors
- Printers, Scanners
- Projectors
- Tools

4. Use of University Equipment off Campus:

To protect University equipment and ensure insurance coverage the following steps shall be taken before prior to relocating equipment to an off-campus location:

- The signing authority for the account from which the equipment was purchased must authorize the use of such equipment off campus; see letter template in Appendix C;
- A copy of this letter should accompany the relocating equipment to off campus locations. The original letter shall be retained along with departmental equipment inventory;
- The equipment must be identified as University property and marked with a Provident number or identifiable security number;
- Environmental and Occupational Health Support Services (EOHSS) shall be consulted when equipment is relocated to another institution or out of Province.
- EOHSS will be informed via completion of the Use of Fixed Asset Away from University Premises Form when any research equipment over \$10,000 is taken off site for insurance purposes.

As part of their duties Special Constables may question persons removing equipment from campus. Faculty and staff transporting equipment off campus should be prepared to present suitable identification such as a McMaster I.D. card or a written authorization from the account signing authority.

5. Compensation for Loss by **Theft** of University Owned Moveable Assets:

Compensation for losses by theft below the University Property deductible and greater than \$10,000 will be paid out of the University's general funds, only when the following conditions are met:

- The missing equipment is supported by an equipment inventory record or equivalent; and,
- The missing equipment is marked with an identifiable security number and/or tag; and
- There is evidence of forcible entry or forcible removal; and,
- The property is replaced with an identical or equivalent item.
- Replacement or repair costs for items under \$10,000 are the responsibility of the department.

6. Compensation for Loss by Damage of University Owned Moveable Assets:

Compensation for losses by damage below the University property deductible and greater than \$10,000 will be paid out of the University's general funds only when the following conditions are met:

- The damaged equipment is supported by an equipment inventory record or equivalent; and.
- The damaged equipment is marked with an identifiable security number and/or tag; and
- The loss is collateral damage due to an accident or failure of a University system e.g. flood due to broken water pipe; or
- The loss results from fire; or
- The loss results vandalism associated with forced entry; and,
- The property is replaced with an identical or equivalent item.
- Replacement or repair costs for items under \$10,000 are the responsibility of the department

7. Records of Loss or Damage

To facilitate internal and external agency requirements for the maintenance of loss of property records and evidence of due diligence practices, the following records will be retained:

- Security: Shall record and file all reported losses of University equipment and moveable assets. Such records will be retained for a minimum of three years.
- Environmental and Occupational Health Support Services: Shall receive copies of all loss reports involving University equipment and moveable assets. Such reports will be retained for a period of three years or until any outstanding insurance claim has been resolved.

8. Disposition of Surplus Assets

Departments and Faculties are accountable for the disposition of surplus equipment and, except as otherwise delegated by the Board of Governors or the President, the disposal of University assets shall be the responsibility of Strategic Purchasing. Current exclusions are the disposal of land and buildings.

Typically, surplus assets will be made available for sale and/or utilization in the following order: other University departments, University faculty & staff, external organizations.

1. Assets purchased from research accounts are the property of the University and are subject to this policy unless otherwise specified by the sponsor's terms for the grant or contract funding.
2. If the individual item has a current market value over \$5,000.00 CAD, prior written approval from the Faculty Dean and/or VP is required before the item can be disposed of. Once complete, please send to customs@mcmaster.ca
3. If your item is under \$5,000.00 CAD, Peter Johns from GovDeals will assist with the process of selling your item(s) online. Contact Peter at pjohns@govdeals.ca and/or

PH# 416-460-4500

4. If you are successful on GovDeals and your item(s) sell, you will receive a certificate of sale and a cheque for the monies will be sent. GovDeals will take a 7% administration fee.
5. If posting on the government auction site is unsuccessful, the Director of Strategic

Procurement will assist in the disposal of the surplus good(s), and ensure the item(s) are removed from the University's central database.

6. If you would like to see what is available for sale on GovDeals, go to www.govdeals.ca. If you find something that you wish to purchase, become a bidder by clicking on register.

Any questions or concerns please contact John Bentley at ext. 23084 or e-mail customs@mcmaster.ca

Other Related Policies and Procedures

- 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:

Facility Services 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 Facility Services also reviews all projects to determine treatment for accounting purposes.

1. Projects that are showing as 100% complete in the Facility Services 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 are 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.

Appendix B – Accounting for Capital Transfers

1. Permanent transfers

McMASTER UNIVERSITY
Notes to Financial Statements
Year ended April 30, 2020

11. Internally restricted net assets:

Details of internally restricted net assets are as follows:

(thousands of dollars)	2020	2019
Pensions (a)	\$ (198,301)	\$ (106,244)
Other retirement and post employment benefit plans (net) (b)	(160,963)	(180,865)
Employee future benefits	(359,264)	(287,109)
Unexpended departmental carryforwards (c)	196,580	167,657
Unexpended research funds (d)	44,836	44,271
Employee benefit (e)	10,360	11,630
Ancillaries (f)	10,300	9,642
Specific purpose (g)	82,787	98,497
Research investments (h)	1,769	3,405
MIP investment (i)	4,965	-
Other (j)	14,834	14,491
Sinking funds (k)	33,952	34,733
Internally financed capital projects (l)	(110,535)	(69,860)
Capital reserves (m)	64,495	112,444
Facilities services projects (n)	102,600	19,625
Other internal reserves	456,943	446,535
	\$ 97,679	\$ 159,426

Explanatory Note:

Permanent Transfers appear in the audited FS. The permanent transfer not yet approved will appear in facilities services projects. A transfer approved for a project will be reflected in capital reserves until money is expended on the capital (either construction in process or completed projects). Money expended on capital from the capital reserves appears on the Statement of Changes in Net Assets.

2. Temporary transfers

Table 16 : APPROPRIATION/ENVELOPE ANALYSIS, YEAR ENDED APRIL 30, 2020

	Appropriations May 1, 2019	Net Surplus (Deficit)	Appropriations April 30, 2020	Net Surplus (Deficit) Variance
\$ thousands				
Faculties and Academic Programs				
Business	3,455	6,172	9,627	9,627
Engineering	24,248	9,024	33,272	1,016
Health Sciences	41,243	5,867	47,110	8,149
Humanities	2,578	3,301	5,879	1,581
Science	20,363	1,228	21,591	11,339
Medical Radiation – Mohawk Share	1	-	1	1
Social Sciences	6,276	2,915	9,191	1,054
Arts & Science	1,564	(178)	1,386	(23)
Sub-total	99,728	28,328	128,056	32,744
Academic Priorities	43,887	(5,548)	38,340	(8,066)
Academic Support	12,291	74	12,365	2,695
Research Support	3,665	1,399	5,064	2,660
Student Support	9,860	80	9,940	3,325
Facilities Support	3,948	(2,713)	1,235	(2,569)
Institutional Support	14,058	2,723	16,781	6,550
Institutional Priorities*	(19,780)	4,579	(15,201)	1,567
Total Operating Fund	167,657	28,923	196,580	38,907

Explanatory Note:

Temporary/flexible transfers can occur outside of the audited FS. It will appear in the table shown here within the Annual Financial Report, however only the "Total" is carried into the audited FS.

As explained above, the envelope VP can approve transfers to either an existing account or a new account. Transfers here can occur within both opening appropriations and current surpluses.

*Includes the approved funding for the Mosaic project, which will be repaid by 2023/24

Appendix C – Letter Template for the Loaning of Assets

DATE
NAME
DEPARTMENT
MCMASTER UNIVERSITY
1280 Main Street West
Hamilton, ON L8S 4K1

NAME,

You are permitted to transport EQUIPMENT, off site for the purpose of carrying out McMaster University work. Please ensure the following:

1. That the EQUIPMENT [e.g. laptop] is clearly marked with the department provided number/ identifiable security number and it is recorded on the departmental inventory for capital equipment.
2. That the EQUIPMENT is kept with you or is secured in a restricted manner. Please do not leave the EQUIPMENT unattended. Of particular notation, you are requested not to store valuables within a vehicle but secure in the trunk if required to transport. Do not leave in a vehicle overnight.
3. Any issue regarding damages or theft of this property is immediately reported to the Supervisor of DEPARTMENT and the procedures specified under the McMaster University Insurance and Protection of Moveable Assets program are followed to include reporting to Security Services.

If you require any clarification regarding this letter, please let me know.

Sincerely,

Name of department Supervisor
Title
Department Name
Extension