



CAPITAL ASSETS PROCEDURE

Procedure Type:	Institutional	Initially Approved:	June 21, 1990
Procedure Sponsor:	Vice-President Finance and Operations	Last Revised:	April 17, 2023
Administrative Responsibility:	Finance	Review Scheduled:	April 2028
Approver:	President and CEO		

A. PROCEDURES

To establish processes, accounting policies and financial reporting practices covering the various stages within the life cycle of tangible capital assets at Alberta University of the Arts (“AUArts”).

This procedure is administered by the Finance department and applies to all employees who purchase, dispose of, or manage tangible capital assets (referred to as “capital assets”).

Non-compliance with this procedure constitutes misuse of AUArts property that may result in disciplinary action up to and including termination of employment.

1. PRINCIPLES

- 1.1 Capital asset purchases are a significant commitment of resources. The acquisition, identification, safeguarding, valuation, and disposal are necessary internal control processes to ensure the recognition, tracking and protection of University assets.
- 1.2 Security of capital assets is an integral part of risk management. Responsibility to ensure that capital asset inventories are maintained and safeguarded from loss or theft lies with each department.

2. PROCEDURES

2.1 RECORDING AND REPORTING

- a) The Finance Department is responsible for the completeness and accuracy of the capital assets recorded to the general ledger.
- b) Capital assets are assets of a tangible nature that are owned by AUArts and intended to be used on a continuing basis extending beyond an accounting period in the normal course of operations and is not intended for sale in regular course of business.

- c) Capital asset ownership rests with the University, whether purchased with operating, ancillary, capital, grant or other restricted funds, or on a capital lease.
- d) Capital assets with a value per unit (before other capitalized costs, such as shipping, GST, etc.) exceeding a threshold amount of \$5,000 shall be capitalized in the financial accounting records of the University with the exception of bulk purchases.
 - i. Bulk purchases of similar capital assets that have a unit value below the capitalization threshold of \$5,000 but have a minimum value as a group of \$5,000 shall be pooled as a single asset with one combined value. Although recorded as a single purchase in the asset module, each unit of the pool is to be recorded separately by the respective departments for monitoring and control of their use and maintenance.
- e) Items purchased not meeting the threshold of \$5,000 are expensed in the year of acquisition.
- f) Cost of a capital asset may include:
 - i. Purchase price net of rebates
 - ii. Taxes including GST (subject to allocation rules)
 - iii. Customs and freight
 - iv. Shipping and handling costs
 - v. Installation, retrofit or fit-up costs
 - vi. Cost of major additions or improvement to the asset ('betterments')
 - vii. Asset retirement obligations (if material)
- g) Trade-in allowances are added to the net cost of new capital assets to determine their value at time of purchase. This allowance will be recorded as capital disposal revenue known as "Proceeds on Disposal of Assets."
- h) Significant disposal costs associated with end-of-life assets the costs shall be accrued for and treated as part of the cost of the asset.
- i) When costs are less than the threshold for the capital asset class but form part of an integral component of the capital asset and the total of these costs exceed the threshold for capitalization of \$5,000, then these costs may be capitalized.
- j) Capital assets shall be grouped into the following categories with the following estimated useful life:
 - i. Building improvements – 15 years
 - ii. Furnishings and equipment – 5 – 10 years
 - iii. Computer hardware and software – 3 – 5 years
 - iv. Estimating useful lives of capital assets is a matter of professional judgement and should be applied on a consistent basis. Factors to be considered in estimating the useful life of a capital asset, new or used, include:
 - expected future usage
 - technical obsolescence
 - expected wear and tear through the passage of time
 - studies of similar items retired
 - the maintenance program
 - the condition of existing comparable items

- v. Departments acquiring a capital asset may adjust the estimated useful life either based on the factors identified above or, in case of a used capital asset, based on the age and condition of the asset at the time of acquisition.
- k) When assets are donated, if they meet the definition of a capital asset, they are capitalized based on their appraised value. This value must be appraised by an independent third party.
- l) Works of art or other intangible assets that may be donated are not capitalized or recorded to revenues
- m) Amortization method shall allocate the cost less any residual value (if material) of the capital asset in a reasonable way over its estimated useful life.
- n) The University uses the straight-line method of amortization for fixed assets.
- o) The Finance Department will annually assess the reasonability of useful life assumptions assigned to each capital asset category and remaining useful life of individual capital assets. The rationale supporting the decision to revise useful life estimates of a capital asset should be documented. Significant events, which may indicate a need to revise the estimated useful life of a capital asset, include:
 - i. completion of a betterment;
 - ii. a change in the extent which the capital asset is used;
 - iii. a change in the manner which the capital asset is used;
 - iv. removal of the capital asset from service for an extended period of time;
 - v. physical damage or destruction;
 - vi. a change in the demand for the services provided through use of the capital asset;
 - vii. significant technological developments; and
 - viii. a change in the law, environment or public preferences, which affects the usage and time periods over which the capital asset is used.
- p) Under *Public Sector Accounting Standards*, works of art and historical treasures cannot be recorded as capital assets in the financial statements. Acquisition costs and donations will be recorded directly to an expense account.

2.2 ACQUISITION

- a) All capital asset purchases must be appropriately approved by an authorized Expenditure Officer, as per the Signing Authority Matrix.
- b) Capital asset purchases not included in the Capital Budget require approval by the Vice President, Finance and Operations before purchase.
- c) All capital purchases are subject to the Purchasing Procedure.
- d) Capital assets purchased or not in use will be recorded to Work-in-Progress (WIP). Department Directors are responsible for notifying Finance when capital asset purchases have been put in use and can be amortized.

2.3 IDENTIFICATION AND PHYSICAL SAFEGUARDING

- a) Employees are expected to take all reasonable actions to always safeguard University assets. All employees are responsible for immediately reporting a missing capital asset to their immediate supervisor.
- b) No assets shall be removed from the University premises without the express permission of the responsible department manager.
- c) Where practicable, the Manager, Procurement & Retail Operations will ensure furnishing and equipment capital assets are physically identified with a unique inventory tag.
- d) Computing and Technical Services will ensure computer hardware are physically identified with a unique inventory tag.
- e) Capital assets will be inventoried and reconciled to records with a physical count no less than once every three years.
 - i. The Finance Department, in cooperation with department directors, will coordinate physical counts of capital assets and will reconcile the counts to the capital asset records.
 - ii. Each department is responsible for counting its capital assets and reconciling the count to capital asset records.
 - iii. Discrepancies will be investigated and followed up by the Finance Department and the respective department directors and capital asset records will be updated based on the results of the physical count.
- f) Disposals will be accounted for by the removal of inventory tags and submission of the Capital Asset Disposal Form to the Finance Department.
- g) The Gallery maintains a Permanent Art Collection. Estimated value as of the date of acquisition will be established by independent appraisal for insurance purposes.

2.4 MAINTENANCE

- a) Repairs and maintenance are expensed in the period they are incurred, unless the repair and maintenance improves the performance or extends the life of the capital asset, in which case, it is considered a betterment and the cost is added to the value of the capital asset.

2.5 DISPOSALS

- a) General Principles
 - i. The disposal of University capital assets must be managed in a fair and equitable manner. The interests of the University must take precedence when the method of disposal is chosen.
- b) Building Improvements
 - i. Disposal of internally funded building improvements must be reported in writing by the Director, Campus Operations to the Finance Department for write-off. Approval for building improvement write-offs will be based on the original purchase price per the Signing Authority Matrix.

- ii. Disposal of externally funded building improvements must be confirmed with the Advancement and/or Finance Department prior to the disposal being made.
- c) Furnishings and Equipment and Computer Hardware and Software
 - i. Department directors are responsible for identifying assets for disposal within their units, with final approval for disposal contingent on approval from the Vice President, Finance and Operations.
 - ii. Internally funded furnishings and equipment and computer hardware and software may be disposed in the following manners, subject to the authorization required as noted above:

Disposal Type and Restrictions	Approval	Consideration*
<p>Surplus</p> <p>To dispose of assets no longer needed or in use by the University.</p> <p>Department is responsible for removal costs.</p>	Based on Signing Authority Matrix and the original cost of the asset	Not applicable
<p>Trade-In</p> <p>To trade-in a capital asset for another newer, similar capital asset.</p>	Based on Signing Authority Matrix and the original cost of the asset	Fair value consideration
<p>Direct Sale to Staff, Related Party or non-Related Party</p> <p>Capital assets may not be gifted to employees per the Code of Conduct.</p>	Based on Signing Authority Matrix and the original cost of the asset	Fair value consideration
<p>Stolen or Lost</p> <p>Capital assets that have been lost or stolen must be immediately reported to the CFO.</p>	Based on Signing Authority Matrix and the original cost of the asset	Not applicable
<p>Dismantled Parts</p> <p>This applies to furnishings and equipment only.</p> <p>Parts are retained by the unit.</p>	Based on Signing Authority Matrix and the original cost of the asset	Not applicable

Disposal Type and Restrictions	Approval	Consideration*
<p>Consideration:</p> <p>Department directors, in consultation with the Finance Department, shall establish an estimated fair value price for the capital asset(s).</p> <p>Capital assets with a sale value of less than \$5,000 may be sold based on a written offer, contingent on final approval from the Vice President, Finance and Operations or their delegate.</p> <p>Capital assets with a sale value of \$5,000 or more shall be open to public bids as coordinated by the Manager, Procurement & Retail Operations.</p> <p>Depending upon the nature of items offered for sale, a reserve bid and/or a bid deposit may be required.</p> <p>All sales must be completed through the Bookstore and will be sold at a mark-up to reflect the Bookstore's services. Employees may not collect cash or cheque from purchasers.</p>		

- iii. Any method outside of the disposals listed above must be approved by the Vice President, Finance and Operations before proceeding.
- iv. Externally funded capital assets may only be disposed of once approval is granted from the appropriate VP and/or Dean as there may be stipulations over a disposal the University must adhere to.
- v. The Department that is in possession of the capital asset identified for disposal continues to be responsible for the asset until the disposal process is completed.
- d) Capital Asset Disposal Form - All disposals of furnishings and equipment and computer hardware and software must be communicated to the Finance Department using the Capital Asset Disposal Form.
 - i. Section A – shall be completed by the requesting Department and approved by the department director or Dean. If the capital asset will be sold or traded-in, the suggested fair value must be approved by the Vice President, Finance and Operations or their delegate.
 - ii. Section B – shall be completed by the Finance Department and approved by the Vice President, Finance and Operations or their delegate, or the President + CEO depending on the original value of the capital asset per the Signing Authority Matrix.
 - iii. Section C – shall confirm the disposal of the capital asset by the department director and be returned to the Finance Department. As part of this process, the department director or Dean(s) will notify the Manager, Procurement & Retail Operations before assets are removed from the University for removal of the inventory tag.
- e) Disposal of computer hardware and software must be decommissioned pursuant to the IT Backup, Retention and Disposal Procedure.
- f) All costs of disposal are the responsibility of the Department who benefited from the capital asset while it was in use.

- g) All environmental, health and safety disposal rules must be adhered to. The Director, Campus Operations must be notified before a disposal is undertaken.

B. DEFINITIONS

Amortization:	A method to systematically allocate and expense the benefit received by the University over the course of a capital asset's useful life.
Asset Retirement Obligations:	A legal obligation associated with a capital asset that will be settled at a future date. The legal obligation may arise from contract, legislation, etc.
Betterment:	Cost of major additions or improvements to the capital asset that enhances its service potential or extends its useful life.
Bulk Purchase:	The acquisition of similar capital assets that have a unit value below the capitalization threshold for each individual unit but have a minimum value of \$5,000 as a group.
Capital Asset:	An investment in or purchase of tangible capital assets including furnishings, equipment, building, etc. whose value will benefit the University over more than one fiscal period. Capital assets must be owned by the University, used on a continuing basis and are not held for sale.
Capital Asset Costs:	Capital asset costs include all costs to get the asset ready for its intended use.
Capital Lease:	<p>A lease arrangement that transfers the effective risk of ownership to the University as though the capital asset had been purchased and financed.</p> <p>Generally, a capital lease has been entered into when the following conditions are met:</p> <ol style="list-style-type: none">1) the term of the lease equals 75% or more of the expected life of the asset, or2) the present value of the lease payments equals 90% or more of the fair value of the asset, or3) there is an option to acquire the asset at the end of the lease for a price that makes it highly probable that the option will be exercised
Capitalize:	Deferring the cost of a capital asset so that the cost may be spread over more than one fiscal period.
Fair Value:	Value of a capital asset that would reasonably be agreed upon by an arm's length transaction between willing, knowledgeable parties under no compulsion.

- Related Party:** Two parties who are known to each other and who are not operating at arm’s length.
- Residual Value:** The proceeds expected to be recouped on the capital asset when it is disposed of.
- Threshold amount:** The minimum total cost that an individual capital asset or bulk purchase must have before it is recorded as a capital asset in the financial records.
- Useful Life:** The period during which a capital asset may be put towards operational use in the University. Useful life may be shorter than physical life because the capital asset may become obsolete before it is worn out. Capital assets will be at the end of their useful life when they are of no further use or potential use to the University and need to be replaced.
- Work in Progress:** Capital assets under development or construction that have not yet been put into use. Capitalized costs will not be amortized until the capital asset is put into use.

C. RELATED POLICIES

- Code of Conduct
- Delegation of Signing Authority Policy
- IT Backup, Retention and Disposal Procedures
- Purchasing Procedure

D. RELATED LEGISLATION / STANDARDS

- *Public Sector Accounting Standards*

E. RELATED DOCUMENTS

- Capital Asset Disposal Form
- Signing Authority Matrix

F. REVISION HISTORY

Date (mm/dd/yyyy)	Description of Change	Sections	Person who Entered Revision (Position Title)	Person who Authorized Revision (Position Title)
11/16/2021	Prior fixed asset procedure 200.13.01 overhaul	All	Manager, Finance and Accounting	Chief Financial Officer
11/23/2021	Name changed from ‘Fixed Assets Procedure’	Name	Manager, Finance and Accounting	Chief Financial Officer
04/17/2023	Clarify requirements related to the revision of useful life Allow for capitalization of bulk purchases	All	Manager, Finance and Accounting	Vice President, Finance and Operations