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NAIT Guidelines OA.6.18

Capital Equipment

Implementation Date: July 1, 2012 Replaces: July 1, 2008

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Purpose: **To establish processes, accounting principles, and financial guidelines covering the various stages within the life cycle of capital equipment assets.**

1.0 Definitions

1.1 *Characteristics of Capital Equipment*:

1.1.1 Tangible or intangible assets, including equipment purchased with the intent of renting it out to others, with a useful life of longer than one accounting period, and a dollar value in excess of the established capitalization threshold~~, except for computer systems, as outlined in 1.1.2 below~~.

1.1.2 Software is defined as computer programs, either for individual or multiple users (i.e. lab packs), and either for academic or administrative purposes, that are a new purchase and not an upgrade to current software, with a dollar value per user in excess of the established capitalization threshold and a useful life greater than one accounting period.

1.1.3 The cost includes the purchase price and all normal and reasonable expenditures necessary to make the equipment operational (i.e. shipping, installation, duty, non-recoverable GST, etc.).

1.1.4 May be made up of individually ordered and assembled items that collectively constitute a unit of equipment (i.e. parts purchased to build a complete unit).

1.2 *Capitalization Threshold*

The value of a unit of equipment generally must be in excess of the capitalization threshold in order to be recorded in the capital accounts. Items below the threshold are usually recorded as an operating expense in the year purchased. The threshold, which is approved by Executive Committee, is **$5,000** Cdn effective July 1, 2012. Financial Services will be responsible for determining if the unit of equipment is recorded as a capital asset based on the nature of the equipment and the value, and ensure that a corresponding budget transfer is made from operating to capital for items under **$5,000** that are being capitalized.

1.3 *Accounting Period*

Accounting period means July 1st to June 30th.

1.4 Capital *Budget Allocation*

The annual capital budget will be allocated to President's Council members and other senior leaders at NAIT who will be responsible for managing these funds and setting the capital equipment priorities in their departments.

1.5 *Capital Lease*

A capital lease is defined as a lease that, from the point of view of the lessee, transfers substantially all the benefits and risks incident to ownership of property to the lessee. It is assumed that the transfer of ownership of the leased equipment occurs when one or more of the following conditions are met:

1.5.1 There is reasonable assurance that NAIT will obtain ownership of the leased property by the end of the lease term (i.e. a bargain purchase option exists).

1.5.2 The lease term is of such a duration that NAIT will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span (i.e. lease term is 75% or greater than the useful life).

1.5.3 The minimum lease payments are equal to substantially all (usually 90% or more) of the fair value of the leased property at the inception of the lease.

Where none of the above conditions are met the following additional considerations must be assessed in determining whether the benefits of risks of ownership have been transferred:

1.5.4 If the leased property is used to provide an essential service to NAIT and is specialized such that there are no alternative assets readily available to NAIT making it likely that NAIT will use the property throughout its economic life, even though the lease term may be for only a minor portion of the property's economic life.

1.5.5 If the leased property is constructed on NAIT owned land, and NAIT provides financing for the leased property, or where NAIT guarantees the financing of the leased property will be fully paid by NAIT under all events of default.

1.5.6 If NAIT has significant degree of control over the idle capacity of the leased property.

1.5.7 NAIT owns or retains control of the land on which the leased property is located, and the leased property cannot be easily moved.

1.5.8 NAIT is responsible for a significant portion of the operating, business, construction, demand or other potential risks associated with the leased property.

2.0 Accounting Policies – Capital Equipment

2.1 Capital equipment is amortized on a straight-line basis over the useful life as determined by Financial Services through discussions with departments:

Buildings and renovations	up to 40 years
Site improvements	up to 10 years
Leasehold improvements	Lease Term
Furnishings, equipment and vehicles	up to 10 years
Heavy Equipment	up to 25 years
Library holdings	up to 10 years
Computers and related equipment	up to **3** years
Software	up to **3** years

The amortization period may be less than the equipment useful life if disposal of the equipment is planned prior to the end of the equipment useful life. In these cases, Financial Services will determine, through consultation with departments, the estimated residual value of the equipment and adjust the annual amortization amount accordingly.

2.2 Donated equipment is recorded at fair market value based on the valuation by NAIT Materials Management or an independent appraisal that recognizes the intended use of the equipment.

2.3 Unamortized deferred capital contributions are recognized as revenue in the periods in which the related capital assets are amortized. The related portion of amortization expense and the deferred capital contributions revenue are matched to indicate how the related amortization expense has been funded. Unamortized deferred capital contributions relating to capital assets disposed of are recognized as revenue in the period of disposal, provided that compliance with all restrictions has been met.

3.0 Budget Planning, Approval And Coordinating Process

3.1 *Committee Roles*

3.1.1 Board of Governors

Reviews and approves the three year Comprehensive Institutional Plan and annual Budgets, inclusive of the capital equipment budget, as recommended by the Finance and Audit Committee.

3.1.2 Finance and Audit Committee (Board of Governors)

a) Reviews and provides input to the planning parameters underlying the preparation of the three year Comprehensive Institutional Plan and annual Budgets.

b) Provides guidance to the Executive Committee regarding the annual capital equipment Budget allowance, within the context of the three year Comprehensive Institutional Plan and a balanced annual Budget.

3.1.3 Executive Committee

a) Prepares the guidelines and planning parameters for the three year Comprehensive Institutional Plan and annual Budget, in consultation with the Finance and Audit Committee, Capital Review Committee, and reference to appropriate sources of information.

b) Approves the allocation within the equipment budget to the various portfolios, as well as any contingencies, conditional approvals, and the use of restricted sources of funds.

3.1.4 Capital Review Committee

a) Provides advice to the Executive Committee regarding capital equipment guidelines and planning parameters for the three year Comprehensive Institutional Plan and annual Budget.

b) Approves the documentation requirements and ranking criteria to be consistently applied.

c) The Chair**,** or designate**,** monitor~~s~~ capital equipment purchases throughout the year in comparison to the budget.

3.1.5 Deans, Directors, Executive Directors, Associate Vice Presidents and Vice Presidents

Approve prioritized capital equipment for their respective business operations.

3.2 *Coordinating Roles*

3.2.1 Purchasing

a) Ensures that the requesting department equipment specifications required by the Purchasing function are completed during the Budget process, using the standard Capital Equipment Request form.

b) Provides assistance where necessary, using the documentation prepared by the units, to obtain preliminary quotes from potential vendors or conduct research using catalogues and other information, to determine price estimates for capital equipment items included in the Budget.

c) Processes capital equipment requisitions in accordance with the Purchasing Guidelines (OA.6.7).

3.2.2 Information Services

a) Develops NAIT standards and specifications for computer hardware and software in consultation with the Information Technology Management (ITM) Technology Committee.

b) Manages and administers NAIT's computer system, including preparation of the capital and operating budgets for computer systems.

3.2.3 Department of Learning Resources

a) Develops NAIT standards and specifications for multifunctional devices and related equipment.

b) Manages and administers NAIT's fleet of multifunctional devices and related equipment, including preparation of a capital and operating budget to address the Institute's identified needs.

c) For audiovisual equipment:

   i) Develops NAIT standards and specifications for common use audiovisual equipment.

   ii) Manages and administers NAIT's fleet of common use audiovisual equipment, including preparing a capital and operating budget to address the Institute's identified needs and maintaining the equipment in a safe operating condition.

   iii) Provides advice, upon request, to departments planning to purchase dedicated audiovisual equipment.

   iv) Consults with department staff to ensure optimum coordination between the common use audiovisual equipment and the decentralized equipment of departments.

   v) Recommends standards and specifications for audiovisual output of computers to ensure optimum effectiveness of computers with projection and other audiovisual equipment.

3.2.4 Capital Projects and Facilities Operations

a) Reviews all requests for furniture in accordance with Guideline OA.6.4.

b) Reviews all approved equipment requests to identify installation requirements and costs as well as impacts to facilities and facilities systems.

3.2.5 Financial Services

a) Set up approved capital projects and funding sources.
b) Review electronic requisitions for correct account and project coding.
c) Record purchases in accordance with generally accepted accounting principles on the Asset Management system, including all equipment bar code numbers.
d) Ensure that all capitalized equipment has a NAIT bar code tag.

4.0 Budget Setup and Budget Maintenance Process

4.1 NAIT Leaders (Dean, Director, Executive Director, Associate Vice President and Executive) are responsible for managing their capital contingency to meet planned and emergent needs during the year.

4.2 Capital equipment projects will be set up by Financial Services upon receiving the approved Capital Request Submission form along with the school/department capital equipment and furniture listing or an email outlining the emergent needs.

4.3 Where special funding has been received (i.e. Enrolment Planning Envelope Funding), Financial Services will make any necessary adjustments to the General Ledger. The Project ID will be communicated to the parties requiring the information.

4.4 Capital equipment purchases must comply with NAIT's Capital Equipment Guideline and Purchasing Guideline.

4.5 Renovations required must comply with NAIT's Campus Development Guideline.

4.6 Minimum of 8 weeks lead time is required to set up capital projects and to obtain the required quotes or tenders. The lead time required may be longer if renovation and installation is required.

4.7 It is recommended NAIT Leaders plan their capital equipment and furniture needs at least three times per year:

4.7.1 By April 30 for goods required to be delivered and installed for the start of the fall term;
4.7.2 By October 15 for goods required to be delivered and installed for the start of the winter term;
4.7.3 By March 1 for goods required to be delivered and installed by June 30.

4.8 Emergent needs will be managed on a case-by-case basis.

4.9 Unspent capital equipment project funds will be returned to capital contingency of the NAIT Leader or special funds when the project is closed.

4.10 Increase in capital equipment project budget due to cost increases, shipping charges or other approved costs for the project, if necessary, will be done by Financial Services from the capital contingency of the NAIT Leader.

4.11 Other funding sources (unspent international student academic incentive funds, donations, conditional and one time grants for equipment and furniture) must be identified.

4.12 Capital equipment projects not complete at year end will be carried forward to the next fiscal year.

4.13 Capital equipment projects not complete 18 months after set up will be investigated and cancelled if no valid reasons exist to carry forward the project.

5.0 Capital Contingency Balances

5.1 Unused capital allocation at June 30 will be added to the next year's capital contingency balance available.

5.2 The June 30 capital contingency balance for any NAIT Leader or VP portfolio shall not exceed three times the allocation for the most recent fiscal year. Any balance in excess of this amount shall be transferred to Executive Committee contingency.

5.3 When the capital contingency fund for a NAIT Leader has been fully allocated or expended, the following options are available after consultation with the Vice President of the NAIT Leader:

5.3.1 Other sources of funds available to the department (unspent international student academic incentive funds, donations, conditional and one time grants for equipment and furniture);

5.3.2 Capital contingency for the Associate Vice President or Vice President of the NAIT Leader;

5.3.3 Business Case submission to NAIT Executive to consider funding from its capital contingency;

5.3.4 Up to $50,000 annual transfer from operating to capital.

6.0 Other Financing of Capital Equipment

Other sources of capital equipment financing include the following:

6.1 Conditional and Special Equipment Grants

The allowance contained within the terms of conditional or special envelope grants may provide for the purchase of capital equipment. Any third party ownership of the equipment must be determined in these cases at the time of purchase.

6.2 *Business Case Financing*

6.2.1 Business cases are to be reviewed and signed by the applicable Vice President of the area prior to review by the Vice President Administration and CFO.

6.2.2 The business case content is to include:

a) a description of the activity
b) an estimate of the capital equipment and renovation cost
c) a three year forecast of revenue and direct operating expenditures
d) a calculation of the payback period
e) a description of the consultation that has occurred with affected areas (other programs, Information Services, Capital Projects, Materials Management, Contracts Administrator, (regarding insurance), etc.
f) additional information as necessary

6.2.3 All business case proposals requiring equipment and renovation expenditures that are outside of the annual budget process require the approval of the Vice President Administration and CFO.

6.2.4 The Capital Review Committee will be consulted on business case proposals where equipment and renovations are identified.

6.2.5 Financial Services will establish and communicate the equipment and renovation projects, following approval by the Vice President Administration and CFO.

6.3 *CIT/CED/Shell Manufacturing Centre Capital Expenditures Request*

All capital expenditure requests for the CIT, CED and the Shell Manufacturing Centre business units shall be in accordance with NAIT Procedures outlined in OA6.18.1.

6.4 Leases

6.4.1 Major equipment may be financed through the operating Budget as a long-term capital lease if the conditions outlined under the Definitions are met (see 1.5), and the annual balanced budget has an appropriate allowance for the capital lease.

6.4.2 Financial Services review will involve both a Lease vs. Purchase analysis and a Capital vs. Operating Lease analysis.

6.4.3 The Vice President Administration and CFO will approve all such leases following analysis by Financial Services and ensuring compliance with legislative requirements regarding leasing of equipment.

6.4.4 All lease documents must be reviewed and approved by the General Counsel.

6.4.5 Financial Services will review all leases at the end of their term to determine if a bargain purchase option is in place and, if so, whether the purchase price should come from the operating or capital budget depending on the capital threshold value in place at that time.

6.4.6 Lease commitments will be reported in the annual financial statements as required by generally accepted accounting principles.

6.4.7 For gift in kinds that have the features of a lease (NAIT has use of the equipment for a limited period of time) must follow 6.4.2 to 6.4.6 above.

6.5 Donations (Gifts in Kind)

Donations of capital assets, the factors affecting their acceptance, the responsibilities of the receiving unit, and other issues related to gifts in kind are addressed in Guideline FR.2.1.

6.6 Trade-ins

All potential trade-ins are to be reviewed by Material Management to ensure the capital assets are disposed of in the most appropriate manner, and in accordance with Sections 10 and 11 below.

See Section 11.3.3 and 11.3.4 for treatment of net proceeds on disposal.

6.7 ***Academic Incentive Plan Funds Transferred from CIT/CED and from International Student Revenue***

6.7.1 Academic Incentive Plan funds transferred from CIT/CED will be added to the capital contingency for the Dean when the allocation is finalized.

6.7.2 Academic Incentive Plan funds transferred from International Student Revenue will not be added to the capital contingency, as these funds can be used for operating purposes or capital purposes.

6.8 ***Software Purchased From Operating Budget***

6.8.1 Software expenditures that have been planned within the Operating Budget but subsequently meet the criteria for capitalization as described in the Definitions shall be capitalized, with the applicable budget transferred from the Operating to the Capital Budget.

6.8.2 Software expenditures that do not meet the criteria for capitalization shall be budgeted and recorded in the Operating accounts.

7.0 Capital Equipment Receiving and Recording

7.1 ***Receiving***

7.1.1 The on-line receiving authority is to check the goods and ensure proper receipt notification is sent to Financial Services.

7.1.2 Materials Management will deliver the goods, as required, to the end user.

7.2 ***Recording***

7.2.1 Financial Services, upon receipt of an acquisition document generated by payment of the invoice, will contact the department to determine the location of the goods and if the goods have been put into use.

7.2.2 Financial Services will generate a bar code and will place the bar code on the equipment and verify the make, model and serial number.

7.2.3 Financial Services will ensure that all information as to location, purchase order number, serial number, cost, useful life, etc. is recorded accurately in the Asset Management System.

7.2.4 Financial Services will, on a monthly basis, reconcile the Asset Management System to the General Ledger to ensure that all items purchased have been recorded in an accurate manner.

8.0 Equipment Installations

8.1 Capital Projects and Facilities Operations will charge all costs associated with the installation of approved Capital Equipment to the appropriate Project within 30 days of completion. Associated costs to be charged to the appropriate project shall include renovations as well as modifications to facility systems (ventilation, cooling, heating and electrical) required as a result of the equipment installation,

8.2 Financial Services will ensure that these costs are capitalized along with the purchase price.

9.0 Capital Equipment Counts

9.1 Financial Services is responsible for establishing a rotating capital equipment count to ensure that all equipment is physically counted at least every three years and will provide barcode scanners with uploaded data to the Schools and Departments to complete their counts.

9.2 The Library Collection will be test counted on an annual basis or a full count will be carried out at least every three years to ensure that the subsidiary records agree with the physical collection for financial statement reporting purposes.

9.3 If deemed appropriate, a complete capital equipment physical count for the entire Institute may be undertaken to ensure the accuracy of the amounts reported in the Institute's audited financial statements.

10.0 Equipment Transfers

10.1 It is the responsibility of each area that has equipment to identify items that become surplus to their needs.

10.2 The area, upon declaring surplus equipment, completes the Retirement/Transfer of Equipment and Materials Form, obtains approval of the Dean/Director/Executive Director/Associate Vice President, and sends it to Financial Services.

10.3 Financial Services will verify the bar code number and note the "book value" (cost less accumulated amortization) of the equipment being declared surplus.

10.4 Financial Services maintains a copy of the form and forwards the remaining copies to Materials Management, who is responsible for the physical disposition of the item.

10.5 Materials Management will pick up the items after they receive the original Retirement/Transfer of Equipment and Materials form that has been signed off by Financial Services. Storage requests will be at the discretion of the Logistics/Purchasing Manager.

10.6 Materials Management will maintain a listing of equipment that has been declared surplus throughout the Institute. Prior to disposing of the equipment (see 10.9 below), the equipment shall be made available to NAIT Schools and Departments.

10.7 For transfers requested by a department regarding an item on the surplus equipment list, contact Materials Management, who will prepare or update the appropriate form and forward a copy to the requesting School or Department, and to Financial Services.

10.8 Financial Services updates the records in the Asset Management System showing the new location and Department ID of the item.

10.9 Materials Management proceeds with the disposition of all remaining items on the surplus equipment list. Refer to Section 11.0 below.

11.0 Disposal and Accounting for Proceeds on Disposal

11.1 Materials Management disposes of surplus equipment through one of the following options:

11.1.1 Trade-in, as part of an order to purchase replacement equipment;

11.1.2 Sale through tender, auction or public sale;

11.1.3 Donation to third parties, subject to the approval of the Vice President Administration and CFO.

11.1.4 Destruction or disassembly by identified departments for parts after determining no reallocation within the School or Department will occur **and net book value is zero**.

11.2 All computers and related equipment that are declared surplus shall be sent to Information Services (ISD) for assessment. ISD is responsible for ensuring that the hard drives of surplus computers and multifunctional devices are cleaned prior to disposal or transfer;

11.2.1 If ISD deems that any parts are usable in labs or sites within the Institute, they will make the necessary arrangements.

11.2.2 If ISD deems that the computer equipment is of no use to the Institute, they will return the equipment to Materials Management for disposal through.

11.3 All identified surplus capital equipment shall be disposed of in a manner determined by Materials Management.

11.3.1 After Materials Management finalizes the disposal method of the equipment, they promptly forward a copy of all pertinent information, including the bar code number, to Financial Services.

11.3.2 Payments received by NAIT for the sale of capital equipment are to be forwarded to Financial Services who ensures that the asset is removed from the Asset Management system and that any gain or loss on sale is recorded.

11.3.3 Net proceeds (defined as proceeds, including trade-in value, in excess of net book value at the time of the disposition) will be returned to the School or Department for use in the purchase of new equipment. The School or Department will notify Financial Services of the equipment to be purchased with the net proceeds. Financial Services will set up a capital project by way of a budget transfer equivalent to the net proceeds of disposal and will notify the School or Department of the coding for the purchase requisition.

11.3.4 In the event that a net loss is created (NBV exceeds any proceeds that may be obtained), Financial Services may, at their discretion, seek an explanation as to why the asset no longer meets the area's requirements and obtain the signed approval of the Dean/Director or appropriate Vice President as deemed necessary to complete the transaction. The area may also be asked to absorb the net loss within their operating budget.

12.0 Control of Capital Equipment and Responsibility to Report Lost, Stolen or Damaged Capital Equipment

12.1 The organizational unit is responsible for controlling all of its assigned capital equipment.

12.2 If capital equipment is loaned to other parties, the standard "Equipment Loan Agreement (NAIT as Lender)" must be completed and authorized.

12.3 The organizational unit is responsible for reporting the loss, theft or damage of any capital equipment.

12.4 The organizational unit completes an appropriate form and forwards it along with the incident report to Security.

12.5 Security will investigate the report and advise the organizational unit and others as to the appropriate next steps.

12.6 Security forwards a copy of the report and the appropriate form to the Contracts Administrator (to prepare an insurance claim if appropriate) as well as to Financial Services.

12.7 Financial Services ensures that the asset is removed from the Asset Management System.

12.8 An appropriate corporate allowance is included within the annual Capital Equipment budget, for the deductible portion of the insurance claim to replace the lost or stolen item. The signing authority for the corporate allowance is the Vice President Administration and CFO.

13.0 Library Holdings

Learning Resources is solely responsible for the purchasing, receiving, recording, deselecting, handling of donations and disposing of all information resources; and, therefore some sections of this Guideline do not apply. See Guideline AR.6.2.

14.0 Financial Reporting

14.1 Reports will be generated as required for annual reporting purposes, the annual capital equipment budget process, and other special purposes as may be requested by various stakeholders within NAIT.

14.2 Financial Services will act as the central contact for capital reporting requirements. Reports may be produced through nVision or the Asset Management System.

14.3 Please see the Asset Management Training Manual for a detailed listing of available reports.

14.4 Financial reporting will be in accordance with Generally Accepted Accounting Principles.