BF 8. Fixed Assets Policies

Title:	**BF 8. Fixed Assets Policies and Procedures**
Policy Number:	BF 8/07.2018
Effective Date:	July 2018
Issuing Authority:	VP of administration and Finance

1. RATIONALE

Effectively creating greater fixed asset records integrity and control requires detailed ground up examination, reconciliation and enhanced inventory and accounting procedures.
The general purpose of this manual is to provide guidance for the efficiency and effectiveness of use, and accountability of the university resources invested in fixed assets.
RHU may have substantial investments in assets, representing long-term commitments to fulfill its mission and objectives.
The Director of Finance is responsible and authorized for the safeguarding, maintenance and control of all university's assets.
Accounting records for fixed assets and fixed assets transactions shall be maintained in such a manner as to provide information to promote sound fiscal management, to assess management accountability.
The director of finance or delegate in cooperation with the warehouse personnel should perform physical inventories, tag each asset, segregate cost and eliminate ghost assets. The end result is that the balance sheet reflects exactly what the University owns as Fixed Assets.
Fixed-asset management involves purchasing, accounting and tagging for assets and disposing of surplus or obsolete equipment through sales or other means.

2. POLICY

Capitalization Policy:

As used herein, the term “fixed assets” refers to the land, buildings, improvements, machinery, equipment, furnishing, facilities, property and other resources purchased or installed to be utilized in accomplishing the university’s goals for a period of time that extends beyond one budget period on condition that the unit costs should be valued at LBP 1,507,500 or more. Items costing less than LBP 1,507,500 are recorded as an operating expense. Capital assets are stated at the date of acquisition, or fair market value at date of donation in the case of gifts.
After initial recognition of the costs of an item of property, plant and equipment, RHU should add subsequent costs to the cost of the item when those costs meet the conditions for recognition set out in International Accounting Standard (IAS). Examples are given of costs of replacing components of an asset or costs of carrying out regular major inspections. In such situations the remaining carrying amount of the replaced component or cost associated with the previous major inspection is written off when the subsequent costs are capitalized.
Fixed assets related to construction are capitalized as projects are completed. Projects that have not been completed as of date of statement of net assets are classified as work in Progress.

The Director of Finance shall establish an asset classification scheme and related schedules, which should be approved by the Vice President for Finance and Administration.

Furthermore, the Director of Finance shall ensure that the university's capitalization policy complies with local regulations. The Vice President for Administration and finance approves any changes required to the capitalization policy.

Fixed Asset Classifications:

For financial reporting purposes, the University's fixed assets should be classified under the following categories:

- Land.
- Buildings.
- Motor Vehicles.
- Furniture & Fixtures.
- Machinery & Equipment.
- Tools & Small equipment.
- Library / References Material.
- Software.

Any new categories should be approved by the Vice President for Administration and Finance.

Property Control

- A fixed asset register should be maintained for all fixed assets of the university. Such register should include the fixed assets tag number, description, location, value and/or total cost, date of purchase, estimated useful life, salvage value, depreciation rate and accumulated depreciation.
- The Fixed Asset Register should be regularly updated by additions, disposals, write-offs and transfers. No item could be removed from the University's premises without a proper approval from the Vice President for Finance and Administration.
- A tag number should be assigned and tagged to all fixed asset items.
- A physical count of all fixed assets should be performed at least once every two years and the results of the count should be reconciled to the University's records. The count should be performed by the Campus Support Department and witnessed by a representative finance or auditing department.
- The count procedures that should be followed are the same as the ones outlined in the inventory physical count

Addition Mechanism and Valuation of Capital Assets:

- **Addition :**

Upon receiving of any fixed asset, the warehouse personnel should tag this asset and determine its location (end user) and date placed in service, the finance department director or delegate must verify the assets cost and depreciation before the final posting.
In some cases, the date placed in service would not be the same date of receiving in such cases the assets will be considered as Work In progress until are finally capitalized.
Furthermore, and on a monthly basis, the finance director or delegate reconciles the current month's activity as recorded in the Accounts Payable Capital Outlay Reports to the subsidiary ledger. This

reconciliation allows him/her to figure out any missed fixed assets that were mistakenly dropped.

- **Valuation of Capital Assets:**

Valuation of capital assets is the amount, expressed in Lebanese Pounds (LBP), assigned in the financial records as the recorded value of a long-lived asset.

- **Land**

a. Land acquired by purchase is recorded at cost and includes the amount paid for the land itself and all related acquisition costs.

b. Land acquired by gift or bequest is recorded at the fair market value at the date of acquisition.

c. When land is acquired with buildings erected thereon, total cost is allocated between land and building in reasonable proportion at the date of acquisition. If the transfer document does not show the allocation, other sources may be used, such as an expert appraisal or real estate assessment records.

d. Land improvements with a total cost greater than LBP 1,507,500 and an estimated life greater than one year will be capitalized. Examples of such improvements include (but are not limited to) landscaping, parking lots, athletic fields, tennis courts, fencing, and outdoor lighting.

- **Infrastructure Assets**

a. Infrastructure assets are long-lived assets that can be preserved for a significantly greater number of years than most capital assets and that are normally immobile in nature. Examples include roads, bridges, tunnels, utility distribution systems, water and sewer systems and dams. They do not include buildings, driveways, parking lots or any other items that are incidental to the property or access to the property. Infrastructure assets with a total cost greater than LBP 1,507,500 and an estimated life greater than one year will be capitalized.

- **Buildings and Building/Leasehold Improvements**

a. Buildings acquired by purchase are recorded at cost and include all permanent structures and all integral fixtures, machinery, and other appurtenances that cannot be readily removed without disrupting the basic building structure or services to the building.

b. Buildings acquired by gift or bequest are recorded at the fair market value at the date of acquisition.

c. When buildings are constructed, all identifiable costs are included, such as (but not limited to) contract costs, insurance and interest costs incurred during the period of construction. Costs are accumulated in Construction in Progress until the date of beneficial occupancy.

d. Structural remodeling/renovation and additions are capitalized when they enhance the use of or extend the life of the building beyond its original estimated useful life, and the total cost equals or exceeds 20% of the building's cost.

Construction in Progress

a. Construction in progress includes all expenditures directly related to building construction, renovations, or additions. These costs include contract costs (materials, labor, and overhead) as well as professional fees and interest incurred during the construction period.

b. Upon completion, construction-in-progress costs are transferred to buildings, improvements or infrastructure.

Furniture and Equipment

a. Furniture and equipment includes all personal property that is (i) not permanently affixed to land or buildings, (ii) has a useful life greater than one year, and (iii) has a unit cost of LBP 1,507,500 or more. Personal property acquired for resale is not to be recorded as a capital asset but as merchandise inventory.

b. A unit of equipment is defined for purposes of this policy as an individual item, or group of items, which is usable for its intended function and which cannot be separated without a diminishment in the usability of the item for its intended purpose. For example: an individual computer workstation generally comprises a monitor, keyboard, and the computer processor. Neither the monitor nor the keyboard can function without the processor and generally would not meet the LBP 1,507,500 thresholds. However, the processor could perform its intended function independent of other items, and is to be capitalized if it meets the LBP 1,507,500 threshold. Capitalizing the monitor and keyboard depends upon whether or not they are classified as accessories. Capitalization of accessory items is based on the following guidelines:

i. Accessory equipment should be included as a portion of the capitalized cost of the capital item if it was invoiced at the time of the initial purchase.
ii. Accessory equipment purchased with the intent of using it interchangeably with two or more items should be capitalized and recorded as a separate item of equipment, if it meets the LBP 1,507,500 threshold.
iii. Accessory equipment acquired subsequent to the purchase of the parent item must meet the capitalization criteria separately.

c. For purchased equipment, the valuation is the net amount paid to the vendor, which is the invoice price less all discounts (except trade-in allowances). Freight and installation costs also are included if they are shown on the original invoice, or if they are readily available on related freight bills.

d. The rebuilding of equipment will be capitalized if the total rebuilding costs exceed LBP 1,507,500 and the rebuilding project effectively restores the equipment to a like-new condition and/or significantly extends the item's useful life or markedly increases the item's net book value.

e. Leased equipment is capitalized if it meets the capitalization criteria outlined in this policy If any one of the following conditions exists at the initiation of the lease then the lease is to be treated as a capital lease:

iv. The lease transfers ownership of the leased asset to the lessee by the end of the lease term. There must be a provision in the lease contract that legal ownership will be transferred.

v. The lease contains a bargain purchase option (BPO). The lease must have a provision that gives the lessee the right (an option) to buy the leased asset at a price that is significantly lower than the expected market value at the option date.

vi. The lease term is equal to 75% or more of the total estimated economic life of the leased asset.

vii. The present value of the minimum lease payments at the inception of the lease is at least 90% of the market value of the leased asset at that time. Minimum lease payments are the rental payments that the lessee is obligated to make in connection with the leased property. If the lease contains a BPO, the minimum lease payments equal the minimum rental payments plus the BPO amount. If the lease does not contain a BPO, the minimum lease payments include: (1) the minimum rental payments required by the lease over the lease term; (2) any residual value guarantee by the lessee at the expiration of the lease term; and (3) any penalty payment the lessee would be required to make if the lease is not renewed or extended at the expiration of the lease term.

f. Fabricated equipment, i.e., final operating units produced by combining component systems and subsystems are capitalized at the total cost of the component parts if the final assembly meets the three capitalization criteria stated in section a. above.

Intangible Assets

- ✓ Acquisitions of a capital nature that are not represented by a tangible asset, will be recorded separately as 'intangible assets' indicating the nature of the asset.
- ✓ The intangible asset will be written-off over the approximate period of benefit, as evaluated by management.

Intangible assets useful life is the period over which the entity expects to obtain benefit from its use

Computer Software

a. Computer software developed or obtained for internal use should be capitalized if the cost of the license is 10,000,000 LBP or more and the software license has a useful life of greater than one year.

b. Software is considered to be developed or obtained for internal use if both of the following tests are met:

i. The software is purchased, internally developed, or modified solely to meet the University's internal needs; and

ii. During the software's development or modification, no substantive plan exists or is being developed to market the software externally.

c. Software development generally involves three phases, as follows:

i. Preliminary project phase. Conceptual formulation of alternatives, evaluation of alternatives, determination of existence of needed technologies, and final selection of alternative.

ii. Application development stage. Design of chosen alternative, including software configuration and interfaces, coding, installation of computer hardware, and testing.

iii. Post-implementation/operation phase. Training and application maintenance activities.

iv. Costs associated with the preliminary project and post-implementation/operation phases are expensed as incurred. Costs (internal and external) associated with the application development stage are capitalized.

v. Capitalization of costs begins when the preliminary phase is complete, and the University's management has implicitly or explicitly committed to funding a software project with the intent it will be completed to perform the planned functions.

vi. Capitalization ceases no later than the time when substantial testing is complete, and the software is ready for its intended purpose or rendered in service.

vii. Examples of expenditures that should be capitalized during the application development stage include:

a) External direct costs of materials and services consumed in developing or obtaining internal-use computer software (e.g., fees paid to third parties for services provided to develop the software during the application stage), costs of computer software purchased from third parties, and travel expenses of employees incurred in their duties directly associated with developing software;
b) Payroll and payroll-related costs (e.g. employee benefits) for employees who are directly associated with and devote time to the internal-use computer software; and
iii. Interest costs incurred while developing the software
h. General and administrative cost and overhead costs are not capitalized; they are expensed as incurred.

Library Books and Materials

When library books and materials are considered to have a useful life of more than one year, they are capitalized. Because library collections consist of a large number of items with modest values, they are reported on a composite basis. The composite basis records net additions and deletions to reflect an overall increase or decrease in the value of the collection.

Housing and Dormitories:

The Director of Business Support (And his/ her delegate, Head of Housing) shall ensure that the assets held in the Faculty or Staff Housing and Student dormitories are listed, checked and signed for by the incoming occupant on arrival at the accommodation.

The resident shall be held accountable for all assets issued to the property, which shall be checked prior to departure and any discrepancies will be noted and accounted for before the final settlement.

The assets in any accommodation not occupied during the year shall be audited annually by a representative nominated by the director of internal Audit.

Depreciation:

All capitalized assets, with the exception of Land, Construction in Progress and Books shall be depreciated annually using the Straight-Line Method, over the applicable useful life with no salvage value, s based on the following annual percentage rates after due consideration is made to the rates:

Motor Vehicles	10%
Access Control System	20%
Appliances	30%
Audio Visuals	30%
Computers	30%
Electrical Office Equipment	10%
Communication equipment	15%
Construction	2%
Land Improvement	2%
Building Improvement	6%
Books	25%
Generators	30%
Gym Machines	25%

The director of finance shall ensure the University's depreciation policy complies with any applicable local regulations. The Vice president for Administration shall approve any changes required to the depreciation policy.

For Financial statement purposes, depreciation begins in the month following acquisition, and ends in the month following disposal or at the end of the assigned useful life, whichever comes first. The acquisition date for capital projects is the beneficial occupancy date.

Fully depreciated assets should remain on the asset records with the related accumulated depreciation as long as the asset is still in use.

Revaluation

- ✓ Fixed Assets shall be revaluated when the depreciation accounting policies are revised and appropriately approved.
- ✓ Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.
- ✓ The revaluation of assets shall be performed only by professionally qualified external valuators.
- ✓ Any increase in the carrying cost of a fixed asset arising out of the revaluation shall be recorded by creating a Revaluation Reserve to the extent of the increase in the carrying cost of the asset.

- ✓ If, however, the revaluation results in a decrease in the carrying cost of the fixed asset, the loss on revaluation shall be recognized immediately in the income statement. Alternatively, the loss may be charged to the Revaluation Reserve to the extent that the loss can be offset against a previous increase on revaluation included in Revaluation Reserve.
- ✓ It is the responsibility of the Finance Department to ensure that the revaluation has been performed accurately.
- ✓ Any changes to the useful lives and residual values of the assets shall be made in accordance to changes applied to the depreciation schedule of an asset category reflected in the accounting policies.

Recording and Reporting:

The director of Finance or delegate shall ensure that all capital assets are recorded, tagged and accounted for in the fixed assets register.

Assets that are received on loan or rental basis are not University property and shall not be recorded in University Records.

Additions to equipment should be individually recorded as an asset except when the addition and the original item are purchased within a 12 month period and/ or the addition becomes an integral part of the original item and or substantially raises the value of the functional unit.

Donation in kind:

Gifts of tangible or intangible personal property will be considered for acceptance only if needed by the University for Use in a manner which related to the university mission of education, research or after a review indicates that the property is readily marketable.

An offer of a personal property gift to the university may be recommended for acceptance on behalf of the university by deans, directors and other authorized officers.

Valuation refers to the value placed on the property Gift for the University gift crediting purposes.

Transfer and Retirement Mechanism:

Departmental Surplus Property may be defined as any item that is not needed, is no longer useful, or is no longer functional and cannot be repaired or improved in a cost-effective.

In this order, departments must arrange to report for their surplus items to the warehouse personnel.

The warehouse personnel will maintain an inventory listing of all surplus items. A copy will be provided to the purchasing department for reference when an asset requisition is received. Any department that requisitions items that are to be supplied from surplus will have the opportunity to inspect the item to ensure its condition and serviceability is acceptable.

Internal transfer of Capital Equipment:

The University is committed to the responsible use of capital equipment and the orderly transfer of capital equipment within its departments. Transfers of capital equipment within the university must be made in a manner that clearly maintains the designation of responsibility for the property.

The department that possesses the equipment completes a Report of Transfer of Equipment form listing each item. Both a representative of the department that possesses the equipment and a representative of the department receiving the equipment must sign the form. Copies of the form must be distributed by the department receiving the equipment to the warehouse facility as well as to the Finance department, which modifies the departmental inventory records on receipt of the signed forms.

Until the Finance department is notified about an asset transferred and the asset system is updated, the department will continue to be held accountable for the asset.

The head of Warehouse is responsible for ensuring that the change of location of any transfer is recorded. Any ongoing depreciation expenses will thereafter be charged to the new department.

The transfer form must provide the following information for each item:

1. Inventory tag number
2. Description of item
3. Acquisition date
4. Cost center (Transfer from)
5. Cost center (Transfer to)

Assets transfers between Departments should be made at no cost.

Retirement of Capital Equipment:

Property no longer having useful value to a department that is not transferred to another department, or traded-in, shall be transferred to the Surplus Property Warehouse, all departments, both academic and administrative, will report unwanted or surplus university assets to the warehouse personnel. The cost of transferring surplus property to the surplus warehouse will be assumed by the Finance department.

The department initiates the removal of surplus property from its area by completing a Report of Transfer of Equipment form. The transfer form will list all the items being transferred to surplus. Once the transfer form has been signed by an authorized departmental representative, the department will email or fax the form to warehouse personnel as well as to the Finance Department.

The warehouse personnel is responsible for the storage, reissue or disposal of all surplus or obsolete furniture, equipment or materials.

Approval of auction committee, headed by the VP for Administration, is a must in case the surplus is going to be:

viii. Sold
ix. Discarded
x. Destroyed

Donations of any surplus items to non- profit entities will be with the approval of the president.

Once the retirement of an asset has been properly approved and documented, the following should be applied:

- At the time the asset is retired, the cost should be removed from the Fixed Assets Register.
- The related accumulated depreciation, including depreciation up to the date of disposal, should be removed from the register as well.
- The gain or loss from such disposal should be recorded as income (gain) or expense (loss) depending on the net book value as compared to the proceeds, if any.
- The proceeds of all sales will be remitted as revenue to the university.
- The sale price of the disposed assets must be the best market price and under no circumstances may goods be donated to staff.

Many decisions in this policy require an assessment of the market value of an item. Such assessments should be undertaken by the purchasing department that should take into consideration the original purchase price, the age of the equipment, an assessment of the usefulness of the equipment and of its possible market value. Consultation with business support and finance or Information Technology services (in the case of IT equipment) is strongly recommended.

Procedure for Surplus of Computers, Hard Drives. & Other Electronic Data Storage Devices/Media:

- Computers must have hard drives removed before surplus, and confirmation that this has taken place is required before items can be submitted.
- Electronic data storage devices (such as hard drives) and brittle media such as CD' external hard driver sent to Surplus must be sent for destruction - they will not be sold.
- Computer software cannot be surpluses, even if unused. Software must be disposed of according to the terms under which it was purchased.

Building Retirement:
The complete demolition of a building

Work In Progress (WIP):

Work that has not been completed but has already incurred a capital investment; this is usually recorded as an asset on the balance sheet. Work in progress indicates any good that is not considered to be a final product, but must still be accounted for because funds have been invested toward its production.

Under work in progress also there are also some machinery, computer and equipment that are not put in service yet.

Asset Loss or Damage

- In case of any lost or damaged assets the Department Head should investigate to resolve the issue.
- The Department Head should escalate the lost or damaged asset issue to a higher position if required.
- Asset lost or damaged should be reported to the Finance Department by submitting a report that includes the description, tag-code, and other information of the item.

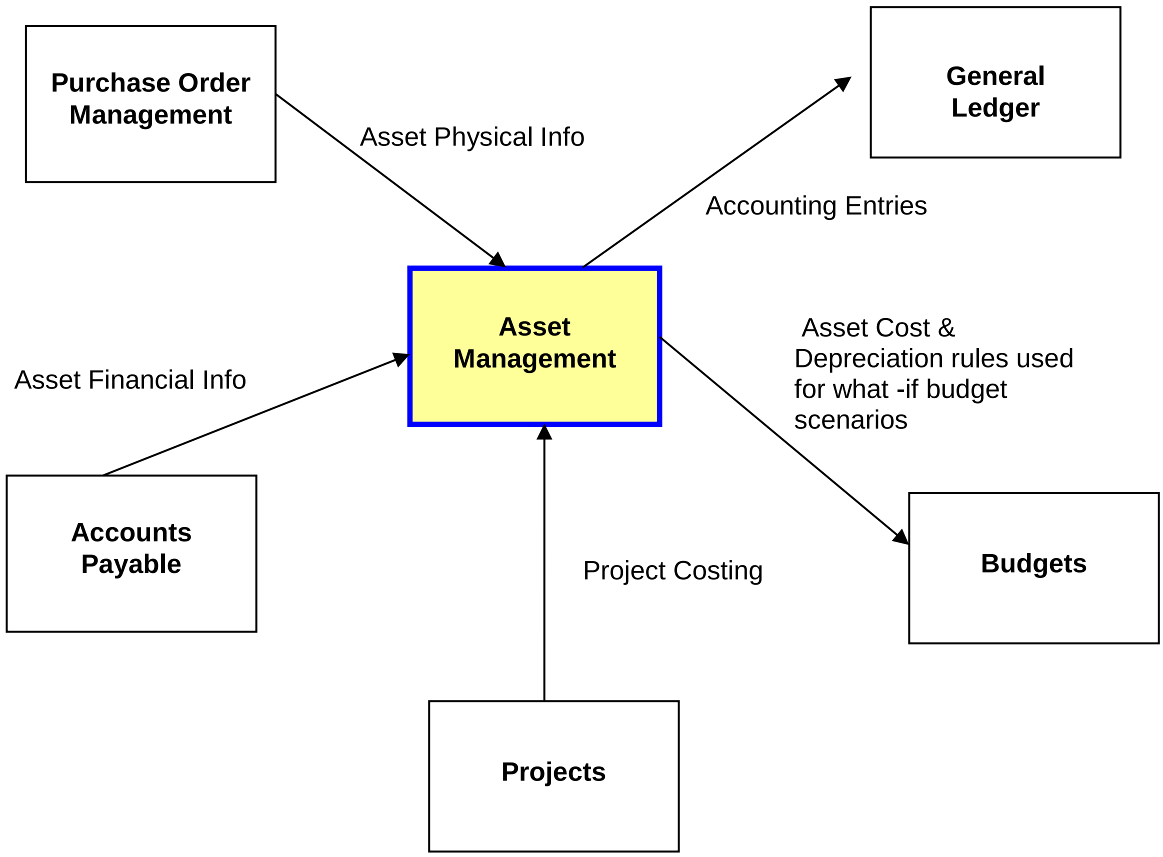
Physical Inventory:

The head of the College/Department is the responsible agent for all properties within the college. Each department head/center or program director or head, is responsible and accountable for property within their respective area of authority.

All units in the University should conduct a100 % inventory once a year by the end of the spring semester, those units will be provided by the finance department with a list of the fixed assets items under their jurisdiction, those are responsible to report to the finance department any discrepancy between the actual physical count and the list of fixed assets prepared by the finance department.

The finance director or delegate is responsible to perform a full inventory on the university's fixed assets once every two years.

Any discrepancies between the actual count and what is recorded in the fixed assets register should be immediately adjusted and investigated.



3. STAKEHOLDER IMPACT AND SCOPE

It is the responsibility of RHU material management and finance department, reporting to VP for Administration and Finance

4. RELATED DOCUMENTS

> Asset Disposal/Transfer Form

5. APPROVAL AND REVIEW

OFFICER RESPONSIBLE: VP for Administration and Finance

AUTHORITY:

POLICY REVIEWED BY:

EFFECTIVE DATE:

REVIEW DATE: As needed

REVISION HISTORY: None.

RELATED POLICIES: All University Policies and Procedures

FINAL APPROVAL BY THE PRESIDENT:

Signature:

Date: