ACCOUNTING POLICIES

1101 GENERAL ACCOUNTING - UNIVERSITY FINANCIAL ACTIVITY

Effective: December 1986
Revised: May 2006
Last Reviewed: April 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

To provide information on the University's financial operation to management, Trustees, and other interested parties.

POLICY

1. The Office of the Comptroller is responsible for accounting for University financial activity in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated in the Audit Guide for Colleges and Universities. University financial activity includes education, hospital and clinical practice operations.

2. Accounts will be maintained and reports prepared on the accrual basis of accounting.

3. Revenues will be recorded when earned.

4. Expenditures will be recorded when materials or services are received or when an obligation or the impairment of an asset has occurred.

5. The Office of the Comptroller is responsible for maintaining a system of internal controls adequate to safeguard University assets.

1102 GENERAL ACCOUNTING POLICY - FINANCIAL RESOURCES

Effective: December 1986
Revised: May 2006
Last Reviewed: April 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

The primary purpose of the accounting system is to account for resources in accordance with objectives established by the Trustees, management, donors, government agencies or others.

POLICY

1. BEN Financials (BEN), the financial accounting system, will be maintained in accordance with the principles of fund accounting.

2. Net assets that are not subject to donor-imposed restrictions will be accounted for as unrestricted net assets.

3. Net assets that are subject to legal or donor-imposed restrictions that will be met by actions of the University and/or the passage of time will be accounted for as temporarily restricted net assets. These net assets include gifts donated for specific purposes and capital appreciation on permanent endowment, which is restricted by Pennsylvania law on the amounts that may be expended in a given year.

4. Net assets that are subject to donor-imposed restrictions that require the original contribution be maintained in perpetuity by the University, but that permit the use of the investment earnings for general or specific purposes, will be accounted for as permanently restricted net assets.

5. Expenses will be recorded and reported as a decrease in unrestricted net assets.

6. Gains and losses on investment will be recorded and reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

7. Expirations of temporary restrictions recognized on net assets will be reported as net assets released from restrictions from temporarily restricted to unrestricted net assets.

8. Resources held by the University as custodian or fiscal agent for others will be accounted for as Agency Funds and shown as a liability on the Statement of Position.

1103 ACCOUNTING SYSTEM MAINTENANCE

Effective: December 1986
Revised: May 2011
Last Reviewed: April 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

Maintenance of BEN Financials (BEN), the financial accounting system is necessary to ensure financial accounting and reporting integrity.

POLICY

1. Financial Systems is responsible for the maintenance of BEN.

2. The number of accounts will be limited to a level necessary to ensure the efficient operation of the University unless required by specific agreements. All requests to create new accounts (funds) must be accompanied by proper documentation and approvals, as indicated below:
   A. Unrestricted Funds: Office of Budget Analysis
   B. Agency, Loan, Endowment, Operating Gift Funds and Capital Gift Funds: Office of the Treasurer
   C. Sponsored Projects Accounts (Grants and Contracts): Office of Research Services

3. Accounts will be established in appropriate fund groups to reflect the nature of the revenues to be generated and/or the purpose of the expenditures to be incurred as defined by the Audit Guide for Colleges and Universities.

4. All changes to account purpose codes and other account specific information must be approved by the Office of the Comptroller and the Office of Budget Analysis.

5. Departments are required to notify Financial Systems, on a timely basis, of the following:
   A. Any organizational change affecting reporting responsibility.
   B. Any accounts inactive unrestricted funds or other inactive account segments to be deleted

6. Departments are required to notify the Office of the Treasurer, on a timely basis, of any gift or endowment funds for which the gift has been expended or any inactive agency funds.

1104 INVESTMENTS

Effective: December 1986
Revised: March 2006
Reviewed: April 2017
Responsible Office: Treasurer
Approval: Treasurer

PURPOSE

To provide policy for the accounting for investments.

POLICY

1. The Office of the Treasurer is responsible for the accounting and reconciliation of all investment transactions.

2. All investment holdings will be reconciled monthly to the accounting records of the University's custodian banks by the Office of the Treasurer.

3. Investments will be stated at the lower of cost or amortized cost, if applicable, or market value.

4. Premiums or discounts which are recorded at the time of purchase will be amortized on a straight line basis over the life of the security.

5. All investment income, gains or losses will be recorded in total monthly, with the custodial bank records providing detail support of transactions.

6. Accounting for pooled investments will provide for an equitable distribution of investment income and a means for determining a participating fund's equitable share of gains and losses, realized and unrealized, on investments.

7. Investment income will be recognized on an accrual basis.

1105 INVENTORIES OF MATERIALS

Effective: December 1986
Revised:
Last Reviewed: April 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

Certain materials and supplies are held in inventory by the University and used for instruction, research and service related activities, and for resale.

POLICY

1. The Office of the Comptroller is responsible for accounting for inventory at the University. This responsibility is delegated to those departments maintaining inventories.

2. Departments with inventories will be responsible for maintaining detailed inventory records. These records must be reconciled monthly to the University's accounting system.

3. A physical inventory will be conducted and reconciled to the detailed inventory records at least quarterly by departments maintaining inventories. All adjustments resulting from a physical inventory must be recorded in the accounting system immediately.

4. Departments are responsible for identifying obsolete inventory which must be written-off when identified.

5. Inventories will be valued at the lower of cost or market with cost being determined by the First-in-First-Out (FIFO) method.

6. Inventory cost will be recorded as an expenditure when incurred. The Office of the Comptroller is responsible for determining the inventory balances to be recorded on the University's balance sheet.

7. Purchases of inventory items will be made through the Purchasing Department unless otherwise authorized by the Director of Purchasing.

8. Materials and supplies issued to University departments for instruction, research and service related activities shall be valued at cost as determined by the FIFO method.

9. Inventory items shall be maintained at levels which reflect prudent business practice.

1106.0 PLANT ASSETS: DEFINITION

Effective: July, 2016
Revised: July, 2016
Last Reviewed: June, 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

To define the parameters for capitalizing assets.

POLICY

PLANT ASSETS:

Capitalized plant assets include Land, Land Improvements, Buildings, Building Improvements, Fixed Equipment, Moveable Equipment, Software, Donated Equipment, other assets, and other expenditures which meet the criteria.

PLANT AND EQUIPMENT DISPOSAL:

The disposal of plant assets includes the sale, scrapping, demolition or other loss of plant assets. Plant asset disposals do not include plant assets placed temporarily in idle service or the dismantlement of a portion of a unit that does not affect its useful life.

1106.01 PLANT ASSETS: DEFINITIONS – LAND & BUILDINGS

Effective: July, 2016
Revised: July, 2016
Last Reviewed: June, 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

To define the parameters for capitalizing assets.

POLICY

LAND & LAND IMPROVEMENTS:

The cost to be capitalized as land includes all costs connected with the acquisition of the land. These costs include but are not limited to the cost of the land, appraisals, professional services, title insurance and other miscellaneous fees and costs associated with the acquisition.

Land improvements eligible for capitalization include the cost of landscaping, infrastructures, utility systems and outdoor public recreational fields and facilities in excess of $100,000.

BUILDINGS & BUILDING IMPROVEMENTS:

The cost to be capitalized as a building includes associated costs related to the acquisition or construction of the building. Acquisition costs include but are not limited to the cost of the building, professional services, appraisals, title insurance and other miscellaneous fees and costs associated with the acquisition. Construction cost includes but is not limited to the cost of professional services, test borings, materials, and site preparation.

Building improvements to be capitalized are significant alterations or structural changes that cost in excess of $100,000 or represent more than 20% of the net book value of the building and increase or amend the usefulness, enhance efficiency or prolong the useful life of the building for a period of greater than one year.

1106.02 PLANT ASSETS: DEFINITIONS – EQUIPMENT & OTHER

Effective: July, 2016
Revised: July, 2016
Last Reviewed: June, 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

To define the parameters for capitalizing assets.

POLICY

EQUIPMENT:

Equipment to be capitalized refers to an item of non-expendable tangible personal property to which the University retains title, has a useful life of more than one year and has a per item acquisition cost, prior to adding freight charges and taxes, as follows:

a) $100,000 or more when acquired using sponsored program funds, or
b) $5,000 or more when acquired using all other funds

"Moveable equipment" refers to equipment which can be easily moved from one area to another.

"Fixed equipment" is equipment which is attached or permanently fastened to a building that cannot be removed without costly or extensive alterations to the building or area to which it is affixed.

EQUIPMENT IN PROCESS (EIP):

Costs incurred for fabricating non-expendable, tangible personal property, that is not available elsewhere, by physically combining or assembling modular components and/or materials into one identifiable unit are considered EIP until the equipment is completed and placed in service. Costs incurred for standard items that are altered or customized to make them usable on a project do not qualify as EIP.

Refer to Policy 1106.6 Plant Assets-Equipment in Process.

EQUIPMENT REPAIRS:

Equipment repair costs to be capitalized are those repairs or equipment replacement costs in excess of $5,000 that is made to extend the useful life of equipment in excess of one year. Repairs made to return equipment to working condition are expensed as incurred.

SOFTWARE:

Individual items of software with an original acquisition cost of $5,000 or more will be considered a capital asset. Software also includes major systems which are purchased from an outside vendor or internally developed by the University. Refer to 1106.7 Plant Assets – Internal Use Software Costs, for more information on accounting of software purchased or developed for internal use.

RARE BOOKS, LIBRARY MATERIALS, & COLLECTIBLES:

Purchases of library materials, rare books, artwork and museum and other collectibles are recorded as expense in the period acquired. Please refer to Policy #2275 for the appropriate management and stewardship of rare books, artwork and museum and other collectible acquisitions.

1106.1 PLANT ASSETS – CAPITALIZATION

Effective: July, 2016
Revised: July, 2016
Last Reviewed: June, 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

To provide a capitalization policy for Plant Assets.

POLICY

1. The Office of the Comptroller is responsible for capitalization of all plant assets in accordance with applicable financial accounting pronouncements. The Accounting Operations section of the Comptroller's Office has this primary responsibility.

2. All capitalized plant assets regardless of funding source, will be recorded as Plant, net of depreciation on the Statement of Position.

3. Interest incurred on external debt used to fund plant assets during construction phase will be capitalized in accordance with applicable financial accounting pronouncements.

4. All land improvements, building improvements and equipment repairs not capitalized will be recorded as an operating expense.

5. Equipment to be capitalized refers to an item of non-expendable tangible personal property to which the University retains title, has a useful life of more than one year and has a per item acquisition cost, prior to adding freight charges and taxes, as follows:

    a) $100,000 or more when acquired using sponsored program funds, or
    b) $5,000 or more when acquired using all other funds

6. Equipment in process shall be capitalized as set forth in Policy Number 1106.6, Equipment in Process.

1106.2 PLANT ASSETS – DEPRECIATION

Effective: December 1986
Revised: May 2017
Last Reviewed: May 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

To provide the depreciation policy for plant assets.

POLICY

1. The Office of the Comptroller is responsible for all depreciation of plant assets.

2. Depreciation of plant assets will be provided for as part of Plant, net of depreciation in the Statement of Position in accordance with applicable financial accounting pronouncements. Depreciation expense on depreciable assets will be shown as an operating expense on the Statement of Activities.

3. All plant assets will be depreciated using the straight line method. Assets will be depreciated over a useful life as determined by the Office of the Comptroller.

4. Assets with an in-service date prior to the mid-point of the month will begin being depreciated in the current month; assets with an in-service date after the mid-point of the month will begin being depreciated in the subsequent month.

5. Depreciation of newly constructed buildings will commence upon issuance of a certificate of occupancy.

1106.3 PLANT ASSETS – RETIREMENTS

Effective: December 1986
Revised: September 2015
Last Reviewed: April 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

To properly account for plant asset retirements.

POLICY

1. Responsibility:

The Office of the Comptroller is responsible for ensuring that all retirements of plant assets are properly recorded at the time of disposal in accordance with applicable financial accounting pronouncements.

Schools and Centers are responsible for ensuring that the appropriate authorizations are obtained for asset retirements; for recording the asset retirement in the fixed asset system; and for maintaining documentation supporting asset retirements

2. Authorization Requirement for Retirements:

All retirements require the prior approval of the Business Administrator, Department Chair or Director.

a. All disposals of plant assets with original acquisition cost less than $500,000 require the prior approval of the Senior Business Administrator or Center equivalent.

b. All disposals of plant assets with original acquisition cost in excess of $500,000 require the prior approval of the Vice Dean or Center equivalent.

If the assets were originally externally funded in whole or in part, the Office of Research Services (ORS) should be notified of the disposal before the asset is disposed to determine if there are any external requirements related to the disposal of the equipment.

It is the responsibility of the Asset Administrator to properly prepare an Authorization for Retirement of Equipment form and obtain the required approvals before the disposition of equipment. After completion of the form and disposal of the equipment, the Senior Asset Administrator should record the retirement in the fixed asset system.

3. Externally Funded Assets:

In the case of externally funded assets, ORS must conduct a post-retirement review which follows the guidelines described in OMB Part 200 for equipment financed by federally funded grants or similar guidelines of any other organization that externally funded the acquisition of equipment. Paperwork regarding disposition of externally funded assets must be sent to ORS to ensure compliance with sponsor requirements before the asset is disposed of. Retirements also include equipment externally funded, taken by a faculty member to another institution.

4. Sale of Assets:

If the asset is to be sold, the Asset Administrator should review the asset information in the fixed asset system to determine the appropriate book value.

If selling the equipment - establish the fair market value:

a. Find current sale listings for the comparable equipment on an auction site, such as eBay.com, or by using other sources used for equipment valuation, such as Kelly Bluebook for vehicle values. Refer to Policy #1106.31 Plant Assets-Disposal of Computing Equipment, for more detailed information on computers.

b. Calculate the average cost based on the equipment in the last hours/stage of the auction. Document this information.

c. Sale proceeds for any University of Pennsylvania property belong to the University.

i. Checks should be payable to the "Trustees of the University of Pennsylvania".

ii. State sales tax must be collected and remitted on these purchases. The tax may be included in the sales price. See Example for calculation of tax amount:

Sales price = $100.00.

Tax Rate = 8% (PA=6% + Phila=2%) Effective October 8, 2009 [for sales prior to that date the sales tax is 7% (PA=6% + Phila.=1%)]

Sales Revenue = $92.59 (100/1.08)

Tax Amount = $7.41

iii. Deposits should record the sale to object code 4501 Gain/Loss on Sale of Assets.

Sales tax collected should be recorded to object code 2111 A/P Sales Tax. The Sales & Use Tax worksheet should be completed and forwarded to Corporate Tax Office (see Sales & Use Tax Guidelines).

1106.31 PLANT ASSETS - RETIREMENT OF COMPUTING EQUIPMENT

Effective: October 2004
Revised: September 2009
Last Reviewed: April 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

To provide a retirement and disposal policy for computing equipment that no longer meets the current business needs of the department.

DETAILS

- Computing Equipment:
  - Desktop and/or Workstation - A computer primarily used to provide direct access (via a locally attached keyboard, mouse and monitor) to applications such as web browsers, email clients, office productivity and data analysis tools for use usually by one individual.
  - Server - A computer used primarily to provide network-based services (e.g. web, file, or email), for use typically by multiple users

- Re-Use - pass on to another person within same/or another department (i.e. cascade)

- Donate - present as a gift without reimbursement or payment for

- Recycle - transfer to a vendor licensed to handle CRT and other hazardous elements of computers

POLICY

1. Departments may donate, sell or recycle computing equipment that no longer meets either the current needs of the department or the minimum qualifications to remain on the campus network. Donations may be made through the Center for Community Partnerships (CCP) or other affiliated donor programs [refer to #7 below]. You may sell used and no longer needed equipment to employees, staff or faculty [refer to #5 below].

2. The decision to donate, sell or recycle computing equipment should occur in consultation with the designated Information Technology (IT) support unit.

3. Before transferring computers containing any software, first make sure that Penn is properly licensed to transfer it, that it was not obtained illegally or in violation of license terms, and that the software was never copied illegally or in violation of license terms. Also, make sure that the transfer conforms to terms of the software license. Internal software license inventory records should be updated to reflect any transfer or deletion of software.

4. Determine the funds used to purchase the computing equipment and ensure the disposal method corresponds with the source fund's instructions. Some source funds, i.e. grants, may prohibit the resale or donation of computing equipment.

5. If selling the equipment - establish the fair market value:
    a. First, find current sale listings for the comparable equipment on an auction site, such as:
        i. eBay.com (for both MACs and PCs)
        ii. dellauction.com (for Dell brand)
        iii. ThinkBid.com
        iv. uBid.com

    b. Second, calculate the average cost based on the computing equipment in the last hours/stage of the auction. Document this information.

    c. Third, the sale proceeds for any University of Pennsylvania property belong to the University.
        i. Checks should be payable to the "Trustees of the University of Pennsylvania".
        ii. State sales tax must be collected and remitted on these purchases. The tax may be included in the sales price. See Example for calculation of tax amount:
            1. Sales price = $100.00.
            2. Tax Rate = 8% (PA=6% + Phila=2% Effective October 8, 2009 [for sales prior to that date, sales tax is 7% (PA=6% + Phila=1%)]
            3. Sales Revenue = $92.59 (100/1.08)
            4. Tax Amount = $7.41
        iii. Deposits should record the sale to the appropriate revenue object and the sales tax should be recorded to object 2111 A/P Sales Tax. The Sales & Use Tax worksheet should be completed and forwarded to Corporate Tax Office (See Sales & Use Tax Guidelines).

    d. The University of Pennsylvania will not provide technical support for the ongoing use of the computer once the transaction has been completed.

6. Electronically wipe computers or destroy the physical media. Remove non-public data on a University computer or other electronic devices before the sale or transference out of the department's direct control occurs.

    a. Use a secure file deletion utility that ensures that the data cannot be recovered by successively writing binary ones and zeros over files to be deleted. Pretty Good Privacy (PGP) includes a secure delete function and is freely available for non-commercial use for Windows and

Macintosh at http://web.mit.edu/network/pgp.html. Norton Utilities' Wipe Info feature and the "gdisk" utility within Ghost will also securely delete files.

b. The same advice applies to storage media like computer tapes, disks, diskettes, etc. Be sure to completely remove any sensitive information before disposing of electronic storage media. University Archives and Records offer a standard service for secure destruction of confidential electronic records. For further details, see http://www.archives.upenn.edu/home/URC.html. If you need further help finding tools or services to do this, contact security@isc.upenn.edu.

7. If donating or recycling
    a. Computer Donations Programs
        i. Penn's Center for Community Partnerships (CCP) accepts certain computer equipment donations. Equipment that can be refurbished is upgraded and donated to various organizations. Refer to: http://www.upenn.edu/ccp/digitaldivide/
    b. Recycle
        i. Recycling may be arranged through your school or center's computing services group.
        ii. Computing equipment may be disposed of through buyers of surplus and used computer equipment
        iii. Check the Information Systems and Computing web site for names of buyers and electronic salvagers. http://www.upenn.edu/computing/provider/recycle.html

8. Departments may *not* discard computing equipment.
    a. Do not place any electronic equipment in the trash, even if it is broken. Electronic equipment may contain heavy metals and other materials that can be hazardous to human health and the environment. The U.S. Environmental Protection Agency (EPA) considers some discarded electronic equipment as characteristic hazardous waster under the Resource Conservation and Recovery Act. Unwanted electronic equipment must therefore either be sold/donated for reuse or sent for recycling. See additional information from Environmental Health and Radiation Safety web page: http://www.ehrs.upenn.edu/resources/waste/puter_disposal.html

9. Maintain records documenting all related transactions.

10. If the equipment had an original acquisition cost of $5,000 or greater and is recorded in the University's equipment inventory system, BEN Assets, the disposition must also be properly authorized by completion of the Authorization of Retirement of Equipment form in accordance with policy 1106.3 Plant Assets: Retirements. The Authorization of Retirement of Equipment form can be found on the Comptroller's web site in the Document/Forms Library at: http://www.finance.upenn.edu/comptroller/Forms/forms.shtml

REFERENCES

1. Information Systems and Computing (ISC)
    a. Computer Recycling and Disposal Options at Penn http://www.upenn.edu/computing/provider/recycle.html

2. Office of Environmental Health and Radiation Safety (EHRS)
    a. Computer Recycling and Disposal Options http://www.ehrs.upenn.edu/resources/waste/puter_disposal.html

3. Center for Community Partnerships (CPP)
    a. Partnership with Americorps to Bridge the Digital Divide in West Philly http://www.upenn.edu/ccp/digitaldivide/

4. Office of the Comptroller
   Forms Library: Property Management - Authorization of Retirement of Equipment http://www.finance.upenn.edu/comptroller/Forms/forms.shtml

RISK OF NON-COMPLIANCE

The use of automated tools and break-in scripts makes it easy for an unauthorized person to quickly access computing equipment and stored data if not properly processed for disposal. Systems that are not properly disposed of are likely to be discovered and broken into. Break-ins can also result in the destruction, alteration or disclosure of sensitive data. Improper disposal of computing equipment may be in violation of EPA regulations.

Financial Policy Manual

1106.4 PLANT ASSETS – PLANT CONSTRUCTION COSTS

Effective: December 1986
Revised: May 2017
Last Reviewed: May 2017
Responsible Office: FRES Design and Construction
Approval: FRES Design and Construction

PURPOSE

To properly account for the costs of construction of University plant.

POLICY

1. FRES Design and Construction is responsible for accounting for all costs of construction (new building construction, building and land improvements), in accordance with the applicable financial accounting pronouncements.

2. All gifts received for the purpose of funding plant construction will be recorded in the Capital Gift Funds. Refer to Capital Project Accounting Procedures on recording of gifts and capital funding transfers associated with gifts. 'http:/www.finance.upenn.edu/comptroller/accounting/cppd/'

3. All construction costs will be recorded as Construction-in-Progress in the Capital Construction Fund until the construction is complete and capitalized to the appropriate plant asset account. Refer to Capital Project Accounting Procedures.
'http:/www.finance.upenn.edu/comptroller/accounting/cppd/'

4. At the time a certificate of occupancy is issued on a newly constructed building, construction costs will be capitalized as buildings and fixed equipment and depreciated in accordance with the University depreciation policy 1106.2.

1106.5 PLANT ASSETS – PROPERTY MANAGEMENT

Effective: December, 1986
Revised: May 2017
Last Reviewed: May 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

To ensure proper management and control of fixed and moveable equipment.

POLICY

1. All equipment obtained by the University, including equipment purchased through sponsored programs, is the property of the University of Pennsylvania and is subject to University property management policies and procedures.

2. The safeguarding and use of moveable equipment assigned to a department is the responsibility of the department head. This responsibility may be designated to a Custodian as assigned by the department.

3. The use of University equipment for personal or private use is prohibited.

4. The use of University property at an off-campus location must be approved in writing by the Department head. The department's Asset Administrator must be promptly notified of any assets used at an off-campus location and the location of the asset must be updated within the fixed asset system to reflect the off-campus location.

5. The University assumes no responsibility for personal equipment brought onto campus, even if it is for a University purpose.

6. The Office of the Comptroller is responsible for maintaining a permanent, detailed record of all fixed and moveable equipment owned by the University including sponsored programs acquisitions for which the University retains title and equipment gifts. Individual responsibility centers are responsible for updating certain information within the fixed asset system; such as changes in location, description, model number, serial number, manufacturer, custodian and phone number, tagging contact and phone number, tag numbers, tagging date and taggable status. Additionally, responsibility for recording retirements is that of individual senior asset administrators within individual responsibility centers.

7. The Central Gifts Processing Office must notify the Office of the Comptroller of all gifts of equipment that have been received and recorded. A copy of any relevant backup received for these

equipments should be provided to Accounting Operations for review. Any donated equipment received with a fair value of $5,000 or more will be capitalized in the general ledger and recorded in the fixed asset system. Any donated equipment with a value of less than $5,000 will be expensed.

8. All changes in status such as relocation, sale, disposal, theft, obsolescence, donation, etc must be recorded in the fixed asset system by the responsible School/Center and asset retirements should be authorized and recorded in accordance with policy 1106.3 Plant Assets: Retirements.

9. The University Office of Public Safety and the Office of Risk Management must be notified whenever an item of equipment is stolen or is damaged or destroyed due to casualty.

Financial Policy Manual

1106.6 PLANT ASSETS - EQUIPMENT IN PROCESS

Effective: May 2005
Revised: May 2017
Last Reviewed: May 2017
Responsible Officers: Senior Business Officers, Comptroller
Approval: Comptrollers

PURPOSE

To ensure proper accounting for Equipment in Process (EIP).

DEFINITION

Costs incurred for fabricating non-expendable, tangible personal property, that is not available elsewhere, by physically combining or assembling modular components and/or materials into one identifiable unit are considered EIP until the equipment is completed and placed in service. Costs incurred for standard items that are altered or customized to make them usable on a project do not qualify as EIP.

POLICY

1. EIP costs are capitalized as incurred when all of the following criteria are met:

    - Upon completion, aggregated cost of the fabricated unit exceeds $5,000
    - Title is retained by the University
    - Upon completion, the equipment will be used by the University beyond the expiration of any grant that funded the fabrication and it has a remaining useful life in excess of one year.

2. EIP costs that do not meet the capitalization criteria in number 1 above are expensed.

3. The School/Center fabricating the asset should notify Accounting Operations (AO) in advance of purchasing components to be used for fabricating the asset so that AO may create the in-process asset in the fixed asset system. At the time of creating the asset, the School/Center should also provide AO with the necessary property information required to be tracked in the fixed asset system, including asset description, category code, asset location, tagging contact and phone number, and custodian and phone number. Upon creation, AO will notify the requestor within the School/Center of the asset number assigned to the newly-created in-process asset.

    For more details, see Plant, Property & Equipment Procedure – Acquisitions: Assets Purchased via BEN Buys. http://www.finance.upenn.edu/comptroller/accounting/property/procedures/

4. When the equipment is placed in service, the School/Center fabricating the equipment will notify AO in writing. AO will then change the status of the asset from an in-process asset to a capitalized asset in the fixed asset system and begin depreciating the asset.

5. Costs related to the repair or upgrading of fabricated equipment in service, which does not extend its remaining useful life, must be expensed.

6. Retirements of fabricated equipment should be recorded in the fixed asset system by the Senior Asset Administrator in the month of disposal in accordance with Financial Policy 1106.3 Plant Assets – Retirements.

Examples

1. A department will fabricate two research widgets. It is estimated that the costs of materials and labor for both widgets will be $5,500. Since the individual aggregate unit cost is $2,250 and less than $5,000, all costs are to be expensed as incurred.

2. A department will fabricate a super widget at an estimated cost of $1,000,000. It has an estimated useful life of 5 years after completion. The costs will be incurred and funded by a sponsor over a 3 year period. The University retains title and will use the equipment beyond the related grant expiration. These costs meet all of the policy criteria in number 1 above and must be capitalized.

3. Same as (2) above except the equipment is to be transferred to the sponsor. All cost must be expensed as incurred since the University does not retain title.

4. The same as (2) above except the equipment will only be used once in an experiment at the end of the grant period. All costs must be expensed as incurred since the useful life of the equipment after completion is less than one year.

5. A fabricated research widget has been in service. One of the components has to be replaced or upgraded. While the component must be replaced or upgraded for the widget to function properly, it does not extend the useful life of the widget. The cost of the replacement component is considered a repair/upgrade and must be expensed.

Responsibility

1. Each School and Center has the primary responsibility for EIP related controls including asset tracking, tagging, and safeguarding in compliance with this policy. This includes, but is not limited to, implementation of monitoring procedures, at least quarterly, in the School/Center that:

   - Ensure that EIP costs are associated with the proper in-process asset in the fixed asset system
   - Ensure that AO has been provided the appropriate property information for inclusion in the fixed asset system as discussed above
   - Ensure that AO is notified to change the status of the EIP asset from in-process to capitalized in the same period the equipment is placed in service.
   - Ensure that the equipment is tagged upon being placed in service
   - Ensure that retirements of fabricated equipment are recorded in the fixed asset system in the period of disposal.

2. AO is responsible for creating the in-process asset in the fixed asset system upon request from the School/Center; accumulating the acquisition costs related to each asset in the fixed asset system as identified by the Buyer at the time of creating the requisition; changing the status of the asset from "in-process" to "capitalized" upon written notification by the School/Center; and reconciling the fixed asset system to the general ledger.

3. AO has the primary responsibility for the maintenance and interpretation of this policy

4. The Office of Research Services (ORS) has the primary responsibility for interpretation of this policy with respect to compliance with research grant rules and regulations. ORS will monitor School/Center compliance with removing costs from EIP object codes before grants are closed and the proper charging of equipment expense to object codes that do and do not draw overhead.

1106.7 PLANT ASSETS - INTERNAL USE SOFTWARE COSTS

Effective: July 2005
Revised: May 2017
Last Reviewed: May 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

Establish guidance for the proper accounting of software purchased or developed for internal use.

SCOPE

This policy applies to all schools and centers that incur software costs.

POLICY

1. Internal-use software (including application, operating system, infrastructure, and utilities) has the following characteristics: (a) the software is acquired, internally developed or modified solely to meet Penn's internal needs and (b) during the software's development or modification, no substantive plan exists or is being developed to market the software externally.

2. The external cost of purchased internal use software applications in excess of $5,000 (exclusive of maintenance, support and/or training costs) with a useful life of more than one year must be capitalized. If the software price includes maintenance, support, or training, the costs related to these components must be separated and expensed. If these costs cannot be separated on a reasonably cost-effective basis, the software must be totally expensed.

3. External costs incurred under a software agreement to provide (1) unspecified upgrades and enhancements to existing functionality or (2) combined maintenance and unspecified upgrades and enhancements should be expensed over the contract period. The external costs of upgrades and enhancements that enable the software to perform additional features that are software extensions, new functionality or "bolt-ons" previously not incorporated into the software design must be capitalized.

4. Costs related to both package and internally-developed software are expensed or capitalized depending on the nature of the cost and the stage of development.

5. All costs incurred during the Preliminary Project Stage (PMAP[1] Definition and Planning Phases) must be expensed. The Preliminary Project Stage generally includes the following activities:

- Making strategic decisions to allocate resources between alternative projects at a given point in time. For example, should IT staff develop a new payroll system or direct their efforts toward correcting existing problems in the current payroll system?
- Determining the functional requirements (what do we need the software to do) and the technical systems requirements for the computer software project that has been proposed.
- Inviting vendors to perform demonstrations of how their software will fulfill our needs.
- Exploring alternative means of achieving specified functional requirements. For example, should we make or buy the software? Should the software run on a mainframe, Unix or Linux server, be web based or client server?
- Determining that the technology needed to achieve functional requirements exists.
- Selecting a vendor if an entity chooses to obtain externally developed software.
- Selecting a consultant to assist in the development or installation of the software.

6. When the aggregate software project costs (exclusive of hardware costs) will equal or exceed $500,000 during the Application Development Stage (PMAP Design and Development Phases), the costs must be capitalized. The Application Development Stage generally includes: 1) design of the chosen path including software configuration and software interfaces, 2) coding, 3) installation of hardware, and 4) testing including parallel testing. Capitalization will occur when both:

- The preliminary project stage is complete, and
- Management, with the relevant authority, authorizes and commits to funding the computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. Examples of authorization include the execution of a contract with a third party to develop the software, approval of expenditures related to internal development, or a commitment to obtain the software from a third party

7. Costs incurred during the Application Development Stage that are to be capitalized include only the following:

- External direct costs of materials and services consumed in developing or obtaining internal-use computer software. Examples of those costs include, but are not limited to, fees paid to third parties for services provided to develop the software during the application development stage, costs incurred to obtain computer software from third parties, and travel expenses incurred by employees in their duties directly associated with developing software.
- Payroll and payroll-related costs (for example, costs of employee benefits) for both functional and technical employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of the time spent directly on the project. Examples of employee activities include, but are not limited to, coding and testing during the application development stage.
- Interest costs incurred while developing internal-use computer software if software project costs are externally financed.

8. All costs incurred during the Post Implementation Operation Stage are to be expensed. These costs generally include training, support services, system operation and application maintenance.

9. Costs incurred for data conversion from old to new systems, including purging or cleansing existing data, and reconciliation or balancing old data to data in the new system, all training and maintenance costs, and general and administrative costs and overhead costs are to be expensed regardless of when they are incurred during the project.

10. Internal costs of upgrades and enhancements made to existing software are expensed or capitalized based on the same criteria that are applied to newly developed software. If internal costs of minor upgrades and enhancements cannot be separated from maintenance costs on a cost-effective basis, all such costs should be expensed as incurred.

11. If the software relates to research and development, it must be expensed unless, at the conclusion of the research, it has an alternative internal use.

---

1. 1 Project Management at Penn

1107 LONG-TERM DEBT

Effective: December 1986
Revised: May 2006
Last Reviewed: April 2017
Resp Office: Treasurer's Office
Approval: Comptroller's Office

PURPOSE

To properly account for long-term debt

POLICY

1. The Comptroller's Office is responsible for accounting for all long-term debt in accordance with the applicable financial pronouncements.
2. Resources borrowed in support of capital projects or current operations/plant will be recorded as a liability. Any realized gains or interest income earned on investments will be recorded as investment income.
3. Resources borrowed to be expended for plant will be recorded as a liability of the University. Unless otherwise provided for, debt service on such borrowings will be funded from unrestricted funds.

1108 INTEREST COSTS ON LONG TERM DEBT

Effective: December 1986
Last Reviewed: May 2006
Revised: April 2017
Resp Office: Treasurer's Office
Approval: Comptroller's Office

PURPOSE

The University may incur interest costs during the course of operations.

POLICY

1. The Treasurer's office in conjunction with the Comptroller's Office is responsible for accounting for all interest costs in accordance with the applicable financial accounting pronouncements. Generally these standards provide that:

    A. All interest cost will be recorded as an expenditure when incurred. Interest costs resulting from debt used to finance construction or renovation of plant will be capitalized as required by the Generally Accepted Accounting Principles (GAAP).

1109 EQUIPMENT LEASE

Effective: December 1986
Revised: April 2012
Last Reviewed: April 2017
Resp Office: Comptroller's Office / Treasurer's Office
Approval: Comptroller's Office

PURPOSE

The University leases facilities and equipment as required by normal operations with the intention to support the mission of instruction, research and public service.

POLICY

1. The Office of the Treasurer is responsible for classifying leases of equipment in the year of their origination as either operating or capital leases in accordance with the applicable financial accounting pronouncements.

2. Facilities and Real Estate Services (FRES) is responsible for classifying facility leases in the year of their origination as either operating or capital leases in accordance with the applicable financial accounting pronouncements.

3. FRES is responsible for the relationship with outside landlords acting as agent in the rental of third-party property and the payment of related rental expense.

4. All leases or letters of agreement for rental of leased property must be executed by the Vice President of FRES.

5. FRES is responsible for the allocation of related rental expense as directed by the department's business administrators.

6. The Office of the Comptroller is responsible for ensuring proper accounting for all leases during the life of the lease in accordance with the applicable financial accounting pronouncements. Generally, those standards provide that:
    i. Lease payments for leases classified as operating leases shall be monitored for materiality. Based on this materiality, the operating lease shall be:

        a) Recorded as an expenditure as paid over the life of the lease (immaterial leases).

        b) Straight-lined as an expenditure over the life of the lease (material leases).

ii. Leases classified as capital leases shall be recorded as an asset and a liability equal to the lesser of either the fair market value of the asset at the inception of the lease or the present value of the lease payments during the life of the lease.

1110 COMPENSATED ABSENCES

Effective: December 1986
Revised:
Last Reviewed: April 2017
Resp. Office: Comptroller
Approval: Comptroller

PURPOSE

To properly account for Compensated Absences, i.e., vacation, illness and holiday pay.

POLICY

1. The Office of the Comptroller is responsible for accounting for compensated absences.

2. Accounting for compensated absences shall be in accordance with the applicable Financial Accounting Standards and the University's personnel policies pertaining to such absences.

1112 COST, REVENUE & OTHER TRANSFERS

Effective: December 1986
Revised: May 2006
Last Reviewed: April 2017
Responsible Office: Comptroller
Approval: Comptroller

PURPOSE

To ensure the validity of cost, revenue and other transfers, including payroll reallocations.

POLICY

All cost, revenue and other transfers must include appropriate documentation and be approved by a responsible person in the department.

FINANCIAL POLICY 1114: RETIREMENT BENEFIT PLANS

Effective: December 1986
Revised: April 2017
Last Reviewed: April 2017
Resp. Office: Human Resources
Approval: Comptroller

PURPOSES:

(A) The University of Pennsylvania Basic Plan and the University of Pennsylvania Matching Plan provide eligible employees with retirement benefits and an opportunity to contribute to their retirement savings.

(B) The Supplemental Retirement Annuity Plan of the University of Pennsylvania provides eligible employees with the opportunity to make pre-tax and/ or Roth contributions to their retirement savings account.

(C) The Retirement Allowance Plan of the University of Pennsylvania provides eligible employees with a retirement benefit based on their average compensation and years of service with the University.

(D) The Retiree Health Plan provides retirees (and their dependents) with certain medical benefits.

(E) The University of Pennsylvania, Penn Police Association, Defined Benefit Pension Plan provides eligible police officers with a retirement benefit based on their average compensation and years of service with the University.

POLICIES:

The University has several plans that provide faculty and staff with a vehicle for retirement savings based on University contributions as well as contributions by the participants.

Accounting for the retirement plans and the retiree medical plan are in accordance with the pronouncements given by the Financial Accounting Standards Board (“FASB”) in accordance with Accounting Standards Codification (“ASC”) 715, *Compensation-Retirement Benefits.*

The Internal Revenue Service (IRS) specifies annual retirement limits that determine the maximum amounts both the individual and the University may contribute to the retirement plans in any calendar year. These limits are indexed by the IRS each year.

- For calendar year 2017 an individual’s pre-tax contribution limit is $18,000 with a “catch up” limit of $24,000 for individuals at least 50 years of age. In addition, there is an additional catch-up contribution that may be available to participants who have at least 15 years of service with the University.

- For calendar year 2017 the annual compensation limit that is used for retirement calculations is $270,000.

(A) The Basic and Matching Plans are administered by the Division of Human Resources with the Vice President of Human Resources as the named Plan Administrator. The investment providers are Teachers Insurance and Annuity Association (TIAA) as well as the Vanguard Group. The plan is made up of the following components:

- The Matching Plan – individuals make pre-tax/ Roth contributions from their pay, which the University matches dollar for dollar up to the first 5%.

  - Individuals can begin participating in the matching plan immediately upon employment with the University, provided they are at least 21 years of age.

  - University contributions will begin after one year of service at the University unless the individual has one year of qualified prior service credit in which case contributions begin immediately. Effective January 1, 2010, university contributions vest after three years of employment.

  - This plan is a 403(b) Defined Contribution Plan.

- The Basic Plan – individuals receive a basic contribution from the University equal to a set percentage of their pay. University contributions will begin after one year of service at the University or immediately if an individual has one year of qualified prior service credit. Effective January 1, 2010, university contributions vest after three years of employment. The percentage is determined by the following age tables:

  - Under Age 30 — 1.5% of Compensation
  - Age 30 to 39 — 3.0% of Compensation
  - Age 40 and above — 4.0% of Compensation

  - This plan is a 401(a) Defined Contribution Plan.

(B) The Supplemental Retirement Annuity Plan (SRA) is administered by the Division of Human Resources with the Vice President of Human Resources as the named Plan Administrator. The investment providers are Teachers Insurance and Annuity Association (TIAA) as well as the Vanguard Group. The SRA is a voluntary tax-deferred retirement plan, which an individual may utilize to supplement their retirement savings.

- Individuals can begin participating in the SRA plan immediately upon employment with the University, provided they are at least 21 years of age.

- There are no matching contributions from the University under the SRA plan.

- This plan is a 403(b) Defined Contribution Plan.

(C) The Retirement Allowance Plan (RAP) provides eligible employees with a retirement benefit based on their average compensation and years of service with the University. The plan is administered by the Division of Human Resources with the Vice President of Human Resources as the named Plan Administrator. The plan trustee is State Street Global Advisors.

- This plan was initially set up for non-exempt individuals who were not eligible to participate in the Basic and Matching Plans.

- As of 7/1/2000, the Plan was frozen to all new full-time employees. Any part time employee who works more than 1,000 hours becomes a participant in the RAP, including any temporary employee who meets the hours requirement.

- The individual's benefit is determined by: (1) their years of eligible service at the University and (2) their average compensation multiplied by 1.25%.

- Eligible employees are not required or permitted to make contributions to the Plan.

- The University makes periodic contributions to the Plan in accordance with actuarially and legally required contribution amounts.

- Prior to 7/1/2000, full-time employees were eligible on the first day of the month coincident with or following the date they complete a year of service and attain age 21.

- Part-time or temporary employees are eligible on the first day of the month coincident with or following the date they complete 1000 Hours of Service either during the 12 consecutive months following their hire date, or any subsequent Plan Year, and attain age 21.

- This plan is a Defined Benefit Pension Plan.

(D) The University has a Retiree Medical Plan that provides retirees (and their dependents) medical and prescription drug benefits. In addition, retirees have a University paid $5,000 life insurance benefit. The plan is administered by the Division of Human Resources with the Vice President of Human Resources as named Plan Administrator. The plan trustee is State Street Bank and Trust Company.

- Eligible individuals must meet the Rule of 75 to participate in the plan i.e., - an individual's age plus service must total at least 75 with a minimum of age 55 and 15 years of full-time continuous service, or age 62 and 10 years of full-time continuous service. Employees active as of January 1, 2006 (the effective date of the Rule of 75) are “grandfathered” under the old eligibility rules as stated previously (without the Rule of 75) until December 31, 2008.

(E) The Penn Police Association (PPA), Defined Benefit Pension Plan provides a retirement benefit to employees of the University who are police officers or other employees whose terms and conditions of employment are subject to the collective bargaining agreement with the Penn Police Association. The named Plan Administrator for this plan is the Vice President of the Division of Public Safety. The plan trustee is The Newport Trust Company.

- The individual’s benefit is determined by; (1) their years of service and (2) their average compensation multiplied by 2.10%.

- The University makes periodic contributions to the trust fund in accordance with actuarially and legally required contribution amounts.

- Eligible employees are required to make contributions of 3% of their compensation to the trust fund.

- Each employee employed by the University as a police officer or other job classification whose terms and conditions of employment are subject to a collective bargaining agreement with the Penn Police Association are eligible to participate, and become an Active Participant on their employment commencement date.

- This plan is a Defined Benefit Pension Plan.

REFERENCES

University of Pennsylvania Retiree Health Plan and Retirement Plan Summary Plan Descriptions (SPDs) - http://www.hr.upenn.edu/myhr/benefits/forms/spd

University of Pennsylvania Retiree Health Plan and Retirement Plan Summary Annual Reports (SARs)
- http://www.hr.upenn.edu/myhr/benefits/notices/sar

1116 GIFTS OF SECURITIES

Effective: December, 1986
Revised: March, 2006
Reviewed: April 2017
Responsible Office: Treasurer
Approval: Treasurer

PURPOSE

To provide a policy for the accounting for gifts of securities.

POLICY

1. Gifts of securities will be valued and recorded at the mean of the high and low price as published by the *Wall Street Journal* or other publication when received by the University.

2. Date of gift is determined as the date the security is transferred to the University.

3. Gifts of securities are to be sold as soon as all appropriate restrictions are lifted. Gifts of the securities are not held for investment.

4. All market or appraised values assigned to gifts of securities must be properly supported in accordance with Internal Revenue Service regulations.

1117 REVENUE RECOGNITION

Effective: October 2006
Revised: May 2015
Last Reviewed: April 2017
Resp. Office: Comptroller
Approval: Comptroller

PURPOSE:

To define revenue recognition and to provide guidelines for recognizing revenue in accordance with generally accepted accounting principles (GAAP).

POLICY

REVENUE RECOGNITION

Revenue should be recognized based on accrual accounting in accordance with GAAP. Revenue should be recognized when it has been earned, regardless of the timing of cash receipts. Revenue is considered earned when the University has substantially met its obligation to be entitled to the benefits represented by the revenue. Deposits (whether refundable or non-refundable), early payments and progress payments should not be recognized as revenue until the revenue producing event has occurred.

Deferred revenue

Deferred revenue generally results when cash is received in advance of revenue being earned. Deferred revenue is a liability on the Statement of Position until it is earned. Once earned, the liability is reduced and revenue is recorded in the Statement of Activities.

Accruals and cutoff

Revenue should be recognized in the period in which it was earned regardless of the timing of billing. At the end of each month, revenue that has been earned but not billed or received should be accrued and recorded as revenue in that month. An asset (accounts receivable) is recognized on the Statement of Position for revenue that has been earned, but not yet billed, or revenue that has been billed or is billable, but has not yet been earned.

Invoicing and cash receipt

Revenue recognition, invoice processing and cash receipts may or may not occur at the same time. Revenue should be recognized when earned, while invoicing and cash receipt may occur independently of the earning process. For example, cash may be received prior to the performance of a service and/or encumbrance of any expense. When cash is received in advance, cash is recorded and a deferred revenue liability is recorded. Revenue is not recognized until the performance of the service or sale is complete.

Conversely, if a service has been completed, revenue should be recorded whether or not billing has occurred or payment has been received.

STUDENT INCOME

Student income includes tuition earned for the graduate and undergraduate programs as well as for continuing education and executive education programs; mandatory student fees; and revenue earned from student board and lodging. Tuition and fees are reported as Tuition and fees, net and student board and lodging are reported as Sales and services of auxiliary enterprises on the Statement of Activities.

Tuition revenue is recognized over the course of the term for which it is earned, regardless of when it is received. Tuition related to the Fall semester is recognized during July through December, Spring semester tuition is recognized during January through June; Summer I semester is recognized during May and June; and Summer II semester is recognized during July and August. Fee revenue, including General fees, Tech fees and Activities fees, relate to services provided by the University over the course of the semester and, similar to tuition, are recognized over the course of the term to which they apply. Certain fees, however, charged for supplies provided to the student are recognized when billed to the student, which approximates when the student receives the supplies and thus when revenue is earned.

Student board and lodging is recognized during the period in which students reside on campus and make use of campus residences and dining. Board and lodging revenue related to the Fall semester is recognized during September through December, Spring semester board and lodging is recognized during January through April. No board and lodging is recognized during the Summer terms.

Student income received under the University's pre-payment plans is reported as Deferred revenue on the Statement of Position until such time that the revenue has been earned.

COMMONWEALTH APPROPRIATIONS

Commonwealth appropriations represent funds provided by the Commonwealth of Pennsylvania for the support and maintenance of the University. The amount of funding to be received each year is determined and approved by the State legislature. As the current year appropriation is not linked to current University spending, that is, it is not cost reimbursement nor based on events or milestones, Commonwealth appropriations are recognized monthly on a straight-line basis over the course of the fiscal year.

SPONSORED PROGRAMS

Sponsored program revenue includes direct revenue and indirect cost recovery earned under grants from governmental and private sponsors. Sponsored program revenues received by the University are primarily cost reimbursement grants and contracts. These contracts reimburse expenses that have already been incurred and revenues are directly related to the costs incurred. Sponsored program revenue is recognized as expenses are incurred. Adjustments to expense under such programs result in an adjustment to revenue. Payments received in advanced from sponsors are reported as Deferred income on the Statement of Position until such time as the revenue has been earned, which is when the expense is incurred.

Refer also to Financial Policy section 2100 Sponsored Projects.

CONTRIBUTIONS

Contributions are unconditional transfers of cash or other assets to the University or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. Other assets include securities, land, buildings, use of facilities or utilities, material and supplies, intangible assets, services and unconditional promises to give those items in the future.

Contributions, including unconditional promises to donate, are recognized as revenue in the period received. Unconditional promises to donate, or pledges, are recognized at their estimated net present value, net of an allowance for uncollectible amounts and are classified in the appropriate net asset category. Pledges and contributions of cash and other assets designated for the acquisition of long- lived assets and long-term investment are reported with Non-operating revenue, net gains, reclassifications and other on the Statement of Activities.

Contributions subject to donor- imposed restrictions that will be met by actions of the University and/or the passage of time are included in temporarily restricted net assets on the Statement of Activities. Contributions with donor- imposed restrictions that require the original contribution be maintained in perpetuity by the University are included in permanently restricted net assets on the Statement of Activities.

Refer also to Financial Policy section 2200 Gifts

SALES AND SERVICES OF AUXILIARY ENTERPRISES

Sales and Services of auxiliary enterprises is limited to revenues derived directly from the operation of auxiliary enterprises. Auxiliary enterprises include residence halls, food services, intercollegiate athletics, college unions, college stores, and services such as copy centers, day care centers, barber shops, beauty parlors, and movie theatres.

Sales and services revenue is recognized when earned, that is, at the time goods or services are provided.

Refer also to Financial Policy section 2000 Sales and Services

OTHER INCOME

Other income includes revenues that are related incidentally to the conduct of instruction, research, and public service and revenues of activities that exist to provide instructional and laboratory experience for students and that incidentally create goods and services that may be sold to students, faculty, staff and the general public, including sales of scientific and literary publications, testing services, and health clinics that are not part of a hospital. Other income revenue is recognized when earned, that is, at the time goods or services are provided.

Refer also to Financial Policy section 2000 Sales and Services

INDEPENDENT OPERATIONS

Independent operations revenue is revenue generated by separately organized operations owned or controlled by the University that are unrelated to, or independent of, the University's mission.

Independent operations revenue is recognized when earned, that is, at the time goods or services are provided.

Financial Policy Manual

1118 RESTRICTED AND UNRESTRICTED GIFTS

Effective: June 2012
Last Reviewed: April 2017
Last Revised:
Resp Office: Treasurer's Office
Approval: Treasurer's Office

POLICY

A donor who makes a restricted gift to the University requires that the gift cash (for gift funds) or the gift's investment income (for endowment funds) be spent for the purpose specified in the Gift Agreement or other document(s) establishing the gift. Appropriate stewardship of these donor-restricted funds requires that the costs of programs and positions supported by such gifts be covered first from the relevant donor-restricted funds before using the University's unrestricted funds. A fund's gift agreement is in essence a contract between the donor and the University which can be enforced by the Commonwealth's Attorney General and the Courts. The vast majority of those contracts require that the gift cash or endowment income be spent for the Fund's purpose; to accumulate the cash/income in those circumstances violates the contract's terms. Accordingly, a restricted endowed fund should show accumulated unspent income only when the supported program or position has not yet incurred enough cost in the given year to absorb all of the income. Accumulating income in an endowed fund or preserving principal in an operating gift fund by spending unrestricted funds for the supported purpose violates the donor's intent. Generally Accepted Accounting Principles also require that our financial records and statements properly reflect the qualifying expenditures as reductions in gift balances at the time they are expended.

ISSUE

Over a period of years, the University has accumulated cash in many donor-restricted funds. The University's unrestricted cash has been used to fulfill a purpose where an operating gift fund or the income from an endowment fund was available to support it. The Treasurer's Office and School/Centers are in the process of auditing these fund balances. Once it has been confirmed that unrestricted funds were used in lieu of the available restricted funds, an appropriate adjustment will be made to the restricted funds' balances to reimburse the departments for the unrestricted funds spent earlier.

PROCESS

In order to ensure proper accounting, the following actions need to be taken:

1. Review all operating gift and endowment funds to determine whether the restrictions have been met through normal university business using unrestricted funds. Proper documentation of expenditures will be required.
2. Upon completion of this review, transfer unrestricted balances as appropriate to School-specific fund to be maintained by department. (01xx0x).

3. All old dormant gift funds will be closed. Any new restricted gift funds opened will be classified as temporarily restricted (i.e. manually reclassed) and will only reclass cash as the funds are expended. Expenditures related to the purpose of these new restricted gift funds should be charged directly to the gift fund as incurred.
4. All new gifts received which are entirely unrestricted to a school/department will be deposited as unrestricted to 63xxxx gift funds. It is expected that expenses will be charged directly to these gift funds as incurred in the same year as the gifts are received; any cash remaining after one year will be automatically transferred into the department's school specific fund (01xx05) using 4829 object code.
5. All endowment income which is entirely unrestricted to a school/department will be transferred automatically to the school/department's designated operating fund (000000 or 01xx0x) using 4709 object code. No direct expenses will be charged to these endowment funds.