American University of Bahrain

Policies and Procedures

Policy Title	Finance and Accounting Policy	Policy Number	201
Section	Financial Affairs and Administrative Services	Approval Date	30 May 2024
Subsection	General Financial Policies	Authorizing Entity	Board of Directors
Responsible Office	Finance Department	Effective Date	1 June 2024
Distributed To	All AUBH Staff	Next Review Date	2 years after the approval date

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1.0 PURPOSE

The Finance and Accounting Policy ("FAP" or "Policy") at the American University of Bahrain ("AUBH" or the "University") is a binding document that dictates financial transactions and accounting practices across the University. The Policy ensures that all financial activities within AUBH meet the highest standards of accuracy, reliability, and regulatory compliance, aligning with the Higher Education Council of Bahrain's ("HEC") requirements and adheres to the International Financial Reporting Standards ("IFRS").

Key objectives of this policy include:

- **Assignment of Responsibilities and Establishment of Expectations:** Clearly defining roles and setting expectations for all departments in managing financial operations.
- **Safeguarding of Assets:** Implementing strict measures to protect the University's financial assets.
- **Consistent Recordkeeping:** Ensuring uniform financial records are maintained for transparency and ease of audit.
- **Accurate, Reliable, and Relevant Financial Reporting:** Guaranteeing that all financial reporting is truthful, up-to-date, and compliant with applicable standards.
- **Maintaining Compliance with Regulatory Requirements:** Regularly reviewing and updating the policy to reflect changes in laws, regulations, and standards.

2.0 SCOPE

This Policy does not cover the entire spectrum of accounting standards; IFRS should be the primary reference in cases where the Policy does not cover a specific topic or when there is lack of clarity. <u>Any difference between the FAP and the IFRS, the guidelines established by IFRS will take precedence.</u>

The Student Handbook contains the most recent public information related to this policy. <u>Any difference between the FAP and the Student Handbook, the guidelines established by Student Handbook will take precedence.</u>

3.0 TRAINING AND AWARENESS

Annual training and awareness programs will be provided to ensure all staff are well-informed about their responsibilities and the Policy itself.

4.0 ABBREVIATIONS

AP	Accounts Payable
AR	Accounts Receivable
ARC	Audit and Risk Committee
BoD	Board of Directors
COO	Chief Operating Officer
ERP	Enterprise Resources Planning System
FP	Finance Personnel
HEC	Higher Education Council
MOIC	Ministry of Industry and Commerce
NBR	The National Bureau for Revenue
UC	University Council
PC	President Council
VAT	Value Added Tax
VPFA	Vice President Finance and Administration

5.0 ROLES AND RESPONSIBILITIES

Finance Personnel ("FP") – employees in the Finance Department appointed by the Vice President Finance and Administration to be responsible for carrying out tasks within the Finance Department functions, while ensuring adequate segregation of duties.

University Council ("UC") – responsible for approving procedures for the Policy.

Vice President Finance and Administration ("VPFA") – responsible for the review, update, and implementation of this Policy.

6.0 DEFINITIONS

Accounts Payable: Accounts payable represent amounts owed by AUBH to external parties in respect of goods received and services rendered.

Accounts Receivable: Amounts owed to the University by an individual or organization whose funds are not controlled by the University.

Additions: The addition of a new major component to an existing asset, resulting in an increase in the asset's future benefit. Costs are usually capitalized.

Affiliate: A party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity.

Allowance for Expected Credit Losses (ECL): Is an account receivable contra account (offsets accounts receivable). The allowance is created by recognizing an expense based on a reasonable estimate of the receivables that may not be collected. Accounts determined to be uncollectible are written off against the Allowance for ECL. The allowance account is netted against the gross receivable account on arriving at a net receivable balance which is deemed to be realizable at the end of each period.

Asset Custodian: Is a person responsible for maintaining and safeguarding assets assigned by the Company.

Bad Debt Expense: Accounts receivable amounts that are determined to be uncollectible accounts receivable and require immediate write-off.

Bank Reconciliation: The process of matching the balances in an entity's accounting records for a cash account to the corresponding information on a bank statement. Reconciliations are performed to ensure that the bank account and cash records are accurate and to identify and correct any discrepancies.

Capital/Capitalized Expenditure: Funds used to acquire or upgrade (additions, improvements, and rearrangements with the intention of adding future benefits to an existing asset) a long-lived tangible physical asset such as property, plant, or equipment.

Cash: Currency on hand and in bank accounts, including coins, banknotes, and checks not yet deposited. It encompasses demand deposits with banks or other financial institutions, where additional funds can be deposited or withdrawn at any time without prior notice or penalty.

Cash Discounts: Reductions not in the selling price of a good or service but in the amount to be paid by a credit customer, if paid within a specified period of time. It is a discount intended to provide incentive for quick payment. For example, the customer will receive a 10% discount if payment is made within 20 days of the invoice date.

Cash Equivalents: Short-term, highly liquid investments that are immediately convertible to a known cash amount and are subject to an insignificant risk of change in value, typically with original maturities of three months or less when purchased. Examples include treasury bills, commercial paper, and money market funds.

Cash Handling: The process of receiving, holding, disbursing, and accounting for cash and cash equivalents. This term encompasses all procedures related to the physical and record-keeping aspects of cash transactions, from initial receipt to final deposition or disbursement.

Change Fund: A specific sum of money in cash, maintained to provide change in transactions at cash collection points. It is separate from petty cash and not intended for purchases or payments. The fund is replenished to the original amount daily to maintain a constant balance.

Consolidation: The process of combining the financial statements of a parent company and one or more of its subsidiaries to present a single set of financial statements as though the separate companies were a single enterprise with one or more divisions or branches.

Contingency: An existing condition, situation, or set of circumstances involving uncertainty as to possible gain (gain contingency) or loss (loss contingency) to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

Control: The possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an entity through ownership, by contract, or otherwise.

Copyright: A granted right of protection that the creator of a piece of work has to reproduce and sell their creation or expression exclusively.

Customers: individuals or entities, including students and non-students, who benefit from the University's goods or services in exchange for monetary or non-monetary consideration.

Deferred Cost: Certain costs of a qualifying project or activity that have extended useful lives. These costs, if qualify for deferral treatment, are capitalized and amortized over the useful life of the project or activity.

Deferred Revenue: Represents amounts billed to or collected from customers that cannot be recognized as revenue at the time of collection. These amounts are deferred on the basis that they have not met the general conditions for revenue recognition since the goods or services have not yet been provided to the customer. Deferred revenue should represent the portion of amounts billed or collected that are expected to ultimately be recognized as revenue at some point in the future when the amounts are both realized and earned.

Depreciation: The systematic and rational distribution of the basic value of an asset, less salvage value, over the estimated useful life of the asset. The Company uses the straight-line method of depreciation.

Direct Cost: Costs that can be specifically identified with a particular project or activity and can be assigned to that project or activity with a high degree of accuracy. Direct costs are costs that have a clearly identifiable beneficial or causal relationship to: (1) the services performed or (2) the level of services performed for a group of customers. Direct costs represent costs of operations, including selling and administrative expenses that are directly attributable to specific operating units.

Expected Credit Loss (ECL): Defined under International Financial Reporting Standard 9 (IFRS 9) as a model that requires institutions to estimate and record losses on financial assets due to default, at the time of credit origination. ECL represents a forward-looking approach, assessing not just incurred losses but also the probability of future defaults over the lifetime of the asset.

Fidelity and Cash Insurance: Insurance policies designed to protect the University against financial losses due to fraudulent acts by employees or third parties, including theft, embezzlement, forgery, and other risks associated with the handling of cash and cash equivalents.

Fixed Assets: Fixed assets include all tangible goods intended for the use or enjoyment for the benefit of the University to provide services to the community. The assets have an estimated life of one year or greater and are unable to be quickly converted into cash. This excludes assets for immediate consumption (i.e., inventory items) and ones of small value (i.e., mouse and keyboards).

Gain Contingency: An existing condition, situation, or set of circumstances involving uncertainty as to possible gain to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

Immediate Family: Family members who might control or influence a principal owner or a member of management, or who might be controlled or influenced by a principal owner or a member of management, because of the family relationship.

Impairment: The condition that exists when the carrying value of a long-lived asset exceeds its fair value. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

Improvements: The replacement of a major component of a fixed asset. Costs related to the improvements are usually capitalized.

Intangible Asset: Assets (not including financial assets) that lack physical substance. A balance sheet item that exhibits the following characteristics:

1) Lack of Physical Existence – value is derived from rights and privileges rather than property or equipment.
2) Not Financial Instruments – intangibles do not include claims for the right to receive cash as with deposits, accounts receivable, long-term bond investment, etc.
3) Long-term in nature - intangibles normally provide benefits over a significant number of years and will be amortized periodically, if it has a definite useful life.

Typical intangibles may include patents, copyrights, franchises, licenses or tradenames.

Intercompany Transaction: Transaction taking place between a parent company and its subsidiary, or between two subsidiaries, which should be eliminated for financial reporting purposes.

Internal Control: Procedures and measures designed to safeguard the University's cash assets, ensure the integrity and accuracy of financial and accounting information, and promote operational efficiency. Internal controls include, but are not limited to, segregation of duties, authorization of transactions, secure storage of assets, and timely reconciliation and review of financial records.

Interest Rate Implicit in the Lease: [IFRS 16: Appendix A] The interest rate that yields a present value of (a) the lease payments and (b) the unguaranteed residual value equal to the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.

Lease: A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. [IFRS 16:9] Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use. [IFRS 16:B9] An asset is typically identified by being explicitly specified in a contract, but an asset can also be identified by being implicitly specified at the time it is made available for use by the customer.

Lease Term: [IFRS 16: Appendix A] The non-cancellable period for which a lessee has the right to use an underlying asset, plus:
a) periods covered by an extension option if exercise of that option by the lessee is reasonably certain; and
b) periods covered by a termination option if the lessee is reasonably certain not to exercise that option

Leasehold Improvements (LHI's): Disbursements that increase the value of the building, either because they increase the service capacity, efficiency, prolong the useful life, or help reduce future operating costs.

Lessee: A person or business entity who obtains the use and/or possession of leased asset/property from the owner of the asset/property (lessor) under agreed upon terms, where the person or entity pays the owner for the use of the asset/property.

Lessee's incremental borrowing rate: The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment

Lessor: An owner of an asset/property who leases the asset/property to another party (the lessee) under agreed upon terms, and receives payment from the lessee.

Loss Contingency: An existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

Management: Persons who are responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the board of directors, the president, chief operating officer, provost, vice presidents in charge of principal business functions (such as sales, administration, or finance), and other persons who perform similar policy making functions. Persons without formal titles also may be members of management.

Net Realizable Value: The net amount expected to be received in cash, which is not necessarily the amount legally receivable. Determining net realizable value requires estimations of both uncollectible receivables and any allowances/discounts to be granted.

Noncontrolling Interest (minority interest): Occurs when the parent owns less than 100% of the subsidiary or affiliate. The University recognizes the minority interest holders' share of equity and net income or loss on the consolidated subsidiary separately as "Noncontrolling Interest" in the Consolidated Balance Sheets (equity section) and "Net income (loss) attributable to the noncontrolling interest" in the Consolidated Statements of Operations when applying the consolidation method of accounting.

Nonmonetary Assets: Items whose price in terms of the monetary unit may change over time (whereas monetary assets – cash or short- or long-term accounts and notes receivable – are fixed in terms of units of currency by contract or otherwise).

Non-Student: a person that is not enrolled in one of the University's programs or an organization that owes the University for goods or services supplied.

Parent: The company that possesses and controls one or more subsidiary entities, considered an investor.

Patent: The right to exclusively manufacture, use and sell a product or process for a period of normally 20 years in Bahrain.

Petty Cash Fund: A reserve of cash maintained on-site for minor and incidental expenditures that cannot be efficiently processed through regular procurement methods. It is managed by a designated custodian and subject to specific limits, replenishment procedures, and documentation requirements.

Principal Owners: Owners of record or known beneficial owners of more than 10 percent of the voting interests of the entity.

Provision for Expected Credit Losses (ECL) Expense: Amounts considered to be uncollectible from accounts receivable that were created providing products and services.

Rearrangements: Expenditures to restructure an asset not involving addition, replacement, or improvement, that result in a new capability for the asset while not extending its useful life. Related costs are usually capitalized.

Recoverable Amount: The current worth of the net amount of cash expected to be recoverable from the use or sale of an asset.

Related Parties: Include,

a. Affiliates of the entity (see definition below)
b. Principal owners of the entity and members of their immediate families
c. Management of the entity and members of their immediate families
d. Other parties which can significantly influence the management or operating policies of the entity
e. Other parties that have an ownership interest in one of the transacting parties and can significantly influence the other transacting parties

Repairs and Maintenance: Expenditures that maintain a given level of benefit associated with a fixed asset, but do not increase the future benefits of the asset. Costs are expensed as incurred.

Residual value: The estimated fair value of an intangible asset at the end of its useful life to an entity, less disposal costs.

Restricted Cash: Funds that are reserved for a specific purpose and cannot be used for general operations. This includes cash that is contractually obligated or earmarked for specific future use and should be accounted for and reported separately from other cash and cash equivalents.

Revenue: The inflow of economic benefits during the period arising in the course of the ordinary activities of the business when those inflows result in increases in equity, other than increases relating to contributions from equity participants. Revenues are the amounts generated from the sales of goods, rendering of services, or any other use of capital or assets, associated with the main operations of an entity—before any costs or expenses are deducted.

Right-of-Use Asset (ROUA): An asset that represents a lessee's right to use an underlying asset for the lease term.

Segregation of Duties: A key internal control mechanism that involves dividing responsibilities among different individuals to reduce risks of error and fraud. This includes separate responsibilities for authorizing transactions, recording transactions, and custody of assets, particularly in cash handling and accounting processes.

Similar Nonmonetary Assets: Assets that are of the same general type, or that perform the same function, or that are employed in the same line of business.

Sponsor: a person or organization that provides financial support to a Student.

Statement of Cash Flows: A financial document to show the change in cash and cash equivalents during a period.

Student: a person enrolling in one of the University's programs.

Subsidiary: A company that is controlled/owned (directly or indirectly) by the parent company yet may continue to operate as a separate legal entity from the parent, considered an investee.

Trademarks: A word, phrase, or symbol that distinguishes or identifies a particular enterprise or product. It is normally granted for the life of 10 years and can be extended in the laws of Bahrain.

Useful Life: The period over which an asset is expected to contribute directly or indirectly to future cash flows of the Company. Useful lives vary depending on the type of the asset, the time the Company intends to use the asset, and varies depending on factors such as obsolescence. When an asset is leased, its useful life is either the expected period it can be used or the lease's remaining term, whichever is shorter. If the lease might be renewed but it's uncertain, only the original lease term is considered, not the potential extended period.

Write-off: A reduction in the value of the accounts receivable against allowance for ECL or Bad Debt Expense by an amount determined to be uncollectible or exhausted all collection attempts.

7.0 VALUE ADDED TAX

The NBR is the government body responsible for the implementation and administration of VAT in Bahrain.

VAT charges, where applicable, are charged in accordance with Decree-Law No. (48) for the year 2018 regarding Value Added Tax and its Executive Regulations issued under Resolution No. (12) for the year 2018. Any subsequent changes in VAT law will be applied.

Depending on the type of goods or services supplied, VAT is applied at a standard rate, zero-rate, or exempt. VAT applies to consumer spending. It is collected on supplies of goods and services as well as on imports of goods and services into Bahrain.

VAT applies at the standard rate if a supply of goods and services is made:
- By a VATable person;
- In Bahrain; and
- The supply is not specifically exempted from VAT or subject to the zero-rate.

The Finance Department is required to charge VAT on goods and services subject to the standard rate. Further, it is responsible for overseeing the input VAT related to purchases.

The Finance Department should ensure that all taxable invoices issued by suppliers or contractors are legit by verifying their VAT certificates.

The Finance Department is responsible for filing a VAT return to the NBR and paying the excess output VAT over input VAT. If input VAT exceeds output VAT, a refund of this difference will be sought from the NBR. The filing is done at least on a quarterly basis or as mandated by the NBR.

8.0 FINANCIAL REPORTING PROCESS AND TIMELINE

8.1. Fiscal Year

The fiscal year of AUBH will align with the academic calendar beginning on August 1st and ending on July 31st of each year.

8.2. Long-Range Plan

The Long-Range Plan (LRP) will be completed in tandem with the Annual Budget process. The LRP is a forward-looking exercise covering the following fiscal year's budget and at least four additional subsequent years (5 years total), as mandated by the BoD. Both the strategy and financial goals of the business should be analyzed and presented to the BoD for approval.

8.3. Annual Budget

- The timeline for budget planning shall be reviewed and approved by the President's Council on an annual basis.
- For each fiscal year, the VPFA is responsible for preparing a comprehensive annual budget that is aligned with the LRP. This budget will project the expected revenues and expenditures, ensuring alignment with AUBH's approved strategic plan.
- The annual budget shall be presented to the President of AUBH for review and approval. The annual budget will then be submitted to the Board of Directors for final approval.
- In compliance with regulatory mandates, AUBH will submit to the Higher Education Council (HEC) with either the draft or the approved budget by the stipulated deadline, as set forth in the HEC's guidelines and stipulations.
- Should the HEC mandate revisions to the proposed annual budget, AUBH will incorporate these modifications. The finalized version, reflecting any changes as directed by the HEC, will then be circulated to both the BoD and the HEC to approve the revision.
- The final version of the annual budget will be shared with the Board of Trustees and Governors for their records.

8.4. Monthly Closing and Forecasting

The Finance Department will close the University's books monthly. This exercise will complete all relevant year-to-date (YTD) financial information for the current month (including profit and loss statements and cash flow) and begin the process of forecasting for the remaining budget period. To enhance the reliability and predictions of the forecasting, historical trends, known future commitments, and input from the budget owners will be taken into consideration.

The monthly closing and forecasting will be completed within 10 working days after the end of reporting period. The end of year closing will be completed within 20 working days after the end of the year.

8.5. Management Accounts

The Management Accounts (MA) will be completed monthly. The MA will include but not limited to the following:

- Financials – YTD and Forecast Revenue, Earnings Before Interest Tax Depreciation and Amortization (EBITDA) and Capital Expenditures (CAPEX) vs. Budget.
- Bank account reconciliations.
- Aged receivables and aged payables report.
- Fixed assets register.
- Breakdown of subledgers deemed necessary.

The MA will be completed within 2 working days after the monthly closing.

The MA will be shared with relevant stakeholders of the University as required.

8.6. Management Report

The Management Report (MR) will be completed quarterly. The MR will include but not limited to the following:

- Enrollment – YTD and Forecast New Enrollment (NE) and Total Enrollment (TE) vs. Budget including variances.
- Financials – YTD and Forecast Revenue, Earnings Before Interest Tax Depreciation and Amortization (EBITDA) and Capital Expenditures (CAPEX) vs. Budget.
- Variance Bridging – Provide a bridge detailing any variances between the preceding month's revenue and EBITDA.
- Risks and Opportunities (quarterly OFR) – Identify and quantify any risks and opportunities having revenue and EBITDA impact that are or are not included in the forecast and their level of assumed probability (low, medium, or high).
- Detailed Variance Analysis (quarterly OFR) – Provide a detailed list of profit and loss line items and include explanations.

The MR will be completed within 5 working days after the monthly closing.

The MR will be reviewed by the PC, ARC, and then sent to the BoD. It will be shared with other relevant stakeholders of the University as required.

8.7. Audit

The annual financial statements must undergo an external audit in compliance with the regulations outlined in Bahrain's Corporate Governance Code and the Commercial Companies Law ("CCL") before they are submitted for discussion to the ARC. Subsequently, these statements will be presented to the BoD for approval.

The University will conduct an annual audit of its accounts engaging one of the "Big Four" international audit firms.

The aim is to produce the audited financial statements for the regulators, such as MOIC and HEC, before the end of January of each year.

8.8. Contents of the Financial Statements

The financial statements shall include:

- Statement of Financial Position
- Statement of Income
- Statement of Changes in Equity
- Statement of Cash Flows
- Notes to the financial statements, encompassing the Statement of Significant Accounting Policies.

Additionally, the financial statements will encompass all necessary disclosures, inclusive of comparative figures for the preceding year, as mandated by IFRS and the standard practices adhered to by corporate entities in Bahrain.

9.0 FINANCIAL AND ACCOUNTING SYSTEM

The Finance Department will maintain all financial records and information in a designated finance system and AUBH SharePoint and OneDrive.

The Finance Department must authorize in writing all purchases of software to be utilized for all finance and accounting functions to ensure compliance with the University policies and procedures.

10.0 CHARTS OF ACCOUNTS

10.1. Structure

The structure of the chart of accounts is as follows:

Account Structure
Main Account – Operating Unit – College – Degree Level – Program – Budget Owner

Main Account

- The main account code consists of 6 digits. The first digit identifies the type of account:
  - 1 → Asset
  - 2 → Liability
  - 3 → Equity
  - 4 → Revenue
  - 5 → Expense

- Account titles and descriptions shall appropriately describe the company's assets, liabilities, equity, revenues, and expenses.

10.2. Creation, Review, and Updates

The Finance Department has the authority and responsibility to create and maintain the AUBH's Chart of Accounts. Responsibility for additions or creations in the Chart of Accounts, account codes, and other account-specific information shall be assigned to the Finance Manager (or any other position designated by the VPFA).

The Finance Department is responsible for ensuring that the coding system used in the Chart of Accounts meets AUBH's financial reporting requirements. It shall ensure that the Chart of Accounts has a unique number to identify:

- Each transaction
- Each line of business
- Each Cost/Revenue Centre

The Finance Department is responsible for reviewing and maintaining the consistency of the account structures across all departments and divisions. This ensures that the operating results from each department or division can be efficiently consolidated to reflect the overall financial performance of the University. To support this, the Finance Department will conduct an annual review of the Chart of Accounts. The objective of the review is to evaluate the effectiveness and relevance of the account structures, allowing for necessary updates and modifications.

All changes to the Chart of Accounts, account codes, and other account specific information must be approved by the VPFA.

11.0 RECONCILIATION PROCESS

The reconciliation process is designed to ensure that all data entered in the sub-modules (Accounts Payable, Accounts Receivable, Fixed Asset, Cash Management etc.) are reconciled and transferred to the General Ledger.

It is the responsibility of the Finance Department to ensure that reconciliation of financial information is performed as per the timelines specified in the Policy.

11.1. Frequency and Timeliness

Reconciliation, verification, and substantiation of sub-ledger modules/integrated systems shall be carried out on a regular basis for implementing effective internal control environment.

The bank accounts, bank card accounts, Accounts Payable, and Accounts Receivables shall be reconciled on monthly basis. All other sub-modules shall be reconciled at least quarterly.

11.2. Review of Reconciliation

The VPFA will conduct monthly reviews of reconciliations to ensure accuracy and adherence to financial reporting.

11.3. Exception Handling

In cases of discrepancies and exceptions, such cases shall be escalated to the VPFA. The VPFA will decide on the actions required to investigate and resolve the issues.

11.4. Segregation of Duties

To the extent possible, the duties of recording financial transactions and reconciling those transactions will be carried out by separate individuals. Where team size constraints make this impractical, a compensating control — the approval of the VPFA on the reconciliations — is implemented to maintain the integrity of our financial processes. This approach will help prevent conflicts of interest and reduce the risk of errors or fraud, while still being feasible within the scope of our team's structure.

12.0 CASH AND CASH EQUIVALENTS MANAGEMENT

12.1. Purpose and Scope

The purpose of this policy is to establish comprehensive guidelines for the management, handling, and accounting of cash and cash equivalents at AUBH. The policy aims to ensure the security and proper accounting of cash transactions, optimize liquidity, and enhance the income generated from cash assets, while setting forth principles for effective cash management and controls to safeguard assets from loss, ensure the accuracy of financial records, and comply with regulatory and internal audit requirements.

This policy applies to all departments, faculty, staff, and entities within the University involved in the receipt, handling, disbursement, and management of cash and cash equivalents. It encompasses a wide range of activities including, but not limited to:

- The collection and deposit of cash and cash equivalents,
- The establishment and oversight of petty cash funds,
- The management of change funds for operational needs,
- The acceptance and processing of credit and debit card transactions,
- The handling and processing of checks, including the specifics of cashing and depositing,
- The implementation of internal controls to prevent misappropriation and ensure the accuracy of accounting for cash transactions,
- The maintenance of cash flow monitoring and forecasting procedures,
- Regular reconciliation of bank accounts and financial records related to cash and cash equivalents.

This policy details the responsibilities of the Finance Department and other units handling cash, delineates processes for internal controls, cashiering, credit/debit card transactions, check processing, and establishes guidelines for the safekeeping, reporting, and auditing of cash transactions.

12.2. Responsibilities

12.2.1. Finance Department Responsibilities:

- Develop, evaluate, and review cash handling policies and procedures for clarity and effectiveness.
- Offer guidance on cash management procedures upon request from department heads.
- Ensure timely bank deposits of funds.
- Record deposits in the general ledger without delay.
- Conduct monthly reconciliations of all bank accounts to maintain accuracy.

12.2.2. Department Heads' Responsibilities:

- Ensure that staff involved in cash handling are informed about, comprehend, and comply with established cash management policies and procedures.
- Establish adequate measures to meet the policy standards.

12.2.3. Responsibilities of Authorized Cash Handlers:

- Issue valid receipts for transactions as needed (e.g., cash receipt slips).
- Safely store cash and cash equivalents until they can be deposited.
- Promptly deposit cash and cash equivalents with the Finance Department.
- Ensure accurate recording of all cash transactions in departmental records.

12.3. Policies

12.3.1. Cash Management Strategy

The strategy prioritizes safeguarding cash, ensuring liquidity, and maximizing income on cash and investments through:

- Segregating duties within cash management functions.
- Minimizing the time between receipt and deposit of cash.
- Ensuring prompt collection and efficient management of accounts receivable and payable.
- Limiting access to financial transaction capabilities to designated personnel.
- Investing excess cash in secure, low-risk financial instruments.

12.3.2. Payment Methods

- While cash and checks are widely accepted payment methods, alternative transaction modes such as wire/electronic transfers, direct debits, and credit/debit cards are recommended to mitigate risk of handling cash and checks.

12.3.3. Cash Disbursements/Payments

- All cash disbursements should be processed in accordance with the *16.0 Accounts Payable*.

12.3.4. Receipts

- All cash disbursements should be processed in accordance with the *13.3.6 Recording Receipts*.

12.3.5. General Requirements

- **Documentation:** All cash and equivalents collected must be supported by proper documentation, providing a clear record of its source and purpose.
- **Accurate Recording:** All cash and equivalents transactions must be promptly recorded in the appropriate general ledger account to facilitate effective financial management and oversight.
- **Reconciliation and Control:** The Finance Department is tasked with the reconciliation of collected funds against revenue or costs, diligently investigating any discrepancies. It also oversees the issuance and management of all University invoices and receipts to ensure accurate financial reporting and compliance.

12.3.6. Cash and Check Management and Internal Controls

- **Regular Deposits:** Regular deposit schedules are mandated to reduce the amount of cash and checks held on premises and to ensure liquidity. The Finance Department, as the central hub for all monetary transactions, ensures that:
  - All forms of money received are deposited within two business days.
  - Deposits should reflect the gross amount collected, with no deductions for cash expenses or other purposes.
- **Access Control:** Access to cash and checks is strictly controlled, accessible only to authorized personnel to prevent unauthorized handling and enhance security.
- **Custody of Cash/ Checks:** Departments handling cash/checks, including those managing petty cash or change funds, must adhere to established cash/check management protocols, including the secure storage of cash/checks in safes or locked compartments when not in use to enhance security.
- **Segregation of Duties:** The VPFA enforces that no single individual oversees the entire cash handling process, from collection to reconciliation. This involves assigning at least two qualified individuals to key duties within the process to mitigate fraud risks. Specific roles include:
  - **Cash Collection and Receipt Issuance:** Personnel responsible for collecting cash and issuing receipts are distinct from those preparing departmental deposits.
  - **Authorized Signers and Reconciliation:** Different individuals are designated for signing checks and conducting account reconciliations to ensure checks and balances.
  - **Check Handling:** The processes of requesting, preparing, issuing, and delivering checks are divided among separate staff members to prevent any single point of failure in financial transactions.
- **Insurance Coverage and Risk Management:** To safeguard against potential financial losses due to fraud, theft, or embezzlement, the University shall maintain a fidelity and cash insurance policy with a minimum coverage of BHD 25,000. This coverage is part of a broader strategy to protect University assets and maintain financial integrity.

- **Routine Audits and System Access:** The VPFA, or an appointed officer, conducts semi-annual reviews to ensure duties within the cash management function are properly segregated. This includes verifying appropriate access to the accounting system based on assigned duties, enhancing transparency and accountability in financial operations.
- **Overages and shortages:** The Finance Department is responsible for ensuring that cash on hand and deposits match actual receipts consistently. Any significant overages or shortages are immediately reported to the VPFA, with detailed records maintained for audit and investigation purposes. Suspicions of fraud, theft, or breaches of fiduciary duty are escalated for further action.

12.3.7. Other Check Handling Requirements

- **Check Acceptance and Processing:**
    - Checks must be made payable directly to the University, ensuring all payments are received as account payee checks specifically addressed to AUBH. This policy excludes the acceptance of cash checks to maintain clear financial transactions and record-keeping.
- **Returned Check Handling:**
    - Checks may be returned for Non-Sufficient Funds (NSF) or other reasons.
    - Returned checks are redeposited twice before initiating a fee and collection process.
    - Students issuing such checks face restrictions on future course registration and a hold on their University record, pending potential exceptions granted by the President, COO, or VPFA.
    - Non-students issuing such checks face restrictions on future business engagement.
    - For checks that are uncollectible, the University reserves the right to engage legal actions through prosecuting authorities or to employ a professional collection agency to recover the owed amounts.
- **Encouraging Compliance:**
    - Imposition of charges on returned checks due to insufficient funds is standard practice to cover the administrative costs incurred and discourage NSF occurrences.
    - The University encourages the use of certified checks as a measure to reduce the likelihood of stop payments and NSF situations, promoting financial stability and reliability in transactions.

12.3.8. Petty Cash Fund

The University maintains petty cash funds to streamline the handling of minor expenses that bypass standard procurement processes. These funds are governed by comprehensive guidelines to guarantee transparency, accountability, and fiscal integrity.

- **Establishment and Oversight:** Petty cash funds are created upon receiving authorization from the VPFA, detailing each fund's specific use, spending limit, and custodian assignments. The Finance Department manages the main petty cash fund, while additional funds may be allocated to various departments based on operational needs, subject to VPFA's approval. The ceiling for any petty cash fund is BHD 2,000, individually approved by the VPFA.
- **Fund Management and Accessibility:** Custodians approved by the VPFA are tasked with the fund's day-to-day management, adhering to the principle that expenditures should support legitimate University operations without exceeding the BHD 100 threshold per transaction. For expenses above this limit and up to BHD 500, VPFA's or Finance Manager's approval is mandatory, aligning with the University's broader procurement guidelines.
- **Documentation:** Custodians must maintain comprehensive documentation, including receipts or invoices, for every petty cash transaction, ensuring transparency and ease of audit.
- **Funding and Replenishment:** Once a petty cash fund is established, the approved limit will be transferred by the Finance Department. The custodian must submit a detailed record-keeping based on reviewed and approved expenditure reports to the Finance Department to process a fund replenishment.
- **Audits and Financial Governance:** To maintain the integrity and compliance of petty cash

operations, the Finance Department conducts regular audits and reviews. These evaluations aim to identify any variances, uphold policy adherence, and propose improvements, thereby reinforcing the University's commitment to responsible financial management.

12.3.9. Change Fund

Change funds are established to provide adequate change during cash transactions, primarily in areas of the University where cash sales occur. These funds are critical for smooth operational transactions and are managed under specific conditions to prevent misuse.

- **Establishment and Limits:** With VPFA approval, change funds are set up with a fixed amount, typically not exceeding BHD 300. This limit ensures that the fund is sufficient to cover daily transactional needs without holding excessive cash.
- **Management and Security:** Change funds are entrusted to designated employees who are responsible for ensuring the fund's integrity. The fund must be secured in a locked container or safe when not in active use.
- **Funding and Replenishment:** Once a change fund is established, the approved limit will be transferred by the Finance Department. The custodian must submit a fund replenishment request to the Finance Department once the fund balance drops below BHD 100.
- **Separation from Other Funds:** Change funds are not to be used for any purposes other than making change. They must be maintained separately from petty cash or other cash reserves to ensure clarity in financial transactions and ease in reconciliation processes.
- **Audits and Financial Governance:** To maintain the integrity and compliance of change funds, the Finance Department conducts regular audits and reviews to confirm accuracy and prevent discrepancies.

12.3.10. Credit/Debit Cards

- The University may accept credit/debit cards as a method of payment for goods and services.
- Credit/debit card information is personal and confidential and must be treated accordingly (see *29.0 Storage, Security, and Destruction of Information and Documents*).
- The Finance department must maintain comprehensive records of credit/debit card transactions, including receipts, refunds, and documentation of card validity for refunds, and should ensure proper storage and limited access to these records.
- Employees handling credit/debit card information should be mindful of the sensitivity of the information they are handling and the need to keep it confidential and protected. Every area at the University that accepts credit/debit cards as a form of payment must follow these procedures.
- Procedures for manual credit card processing must also be established to ensure appropriate authorized use.

12.3.11. Bank Account and Banking Activities

- Establishment and Purpose of Bank Accounts
    - University bank accounts are established for the purpose of collecting revenue and managing disbursements related to operational expenses, including cash, checks, and wire transfers.

- Bank Account Controls
    - The Finance Department operates as the sole University department authorized to conduct business with banking and financial institutions.
    - The establishment of bank accounts, their operations, and banking relationships require Board Resolutions to delegate appropriate authority to designated University personnel. This

includes setting limits of authority, issuing letters of credit (LCs), guarantees, and other banking instruments.

- Letters of Credit and Guarantees:
    - The issuance and approval of LCs and guarantees must adhere to the University's Delegation of Authority policy.

- Overdraft Management
    - Cash balance overdrafts occur when payments exceed available bank balances, necessitating classification as a liability in financial statements. The Board of Directors approves the establishment of overdraft limits and conditions for their use. The Finance Department is responsible for regular monitoring of overdraft accounts to ensure compliance with established conditions and to undertake necessary corrective actions based on trend analysis and overdraft reasons.

- Restricted Cash
    - Cash allocated for specific purposes, such as bank guarantees, is classified as restricted cash. It is recorded in designated accounts separate from regular cash and cash equivalents. In financial reporting, restricted cash is disclosed separately on the balance sheet and noted in the financial statements' footnotes, highlighting any material restrictions on its use.

- Monthly Reconciliation Process
    - Procedure and Review: Bank reconciliations are performed monthly to compare the University's internal records with bank statements, ensuring all transactions are correctly accounted for in the general ledger. This critical process identifies discrepancies early, allowing for timely resolution.
    - VPFA Oversight: The VPFA reviews and approves the reconciliation reports, underscoring the importance of accuracy in financial reporting and the University's commitment to fiscal responsibility.
    - Documentation and Transparency: Procedures for the reconciliation process are documented and regularly updated to reflect best practices and regulatory requirements, fostering a culture of transparency and continuous improvement in financial management.

12.3.12. Minimizing Accounts Receivable and Maximizing Accounts Payable Timelines

- Accounts Receivables
    - Accounts receivable billings should be processed timely in accordance with the *13.0 Accounts Receivable*.
    - Outstanding accounts receivable balances should be monitored and followed up on in a timely manner. Expediting the AR process and reducing the days outstanding for accounts receivable will improve the cash flow of the University.

- Accounts Payables
    - Accounts payables payments should be processed timely in accordance with the *16.0 Accounts Payable*.
    - Maximizing the days outstanding for payables while maintaining good credit relations with the University's vendors is the primary objective under the Accounts Payable process.
    - The University may process payables earlier to take advantage of purchase discounts when feasible.

12.3.13. Cash Flow Monitoring and Forecasts

- The Finance Department needs accurate cash information and cash forecasts to make proper business decisions relating to cash and working capital.
- The Finance Department should prepare (at a minimum) monthly cash flow reports and forecasts.

12.3.14. Written Procedures

- Written procedures should be developed and maintained by each University unit that manages significant amounts of cash aligned with the Finance Department policies and procedures. Written procedures should minimally include authorization of person(s) to collect cash, off-site cash collection procedures, maintenance of cash receipt logs, security and reconciliation of cash, preparation, approval, and transmittal of cash to the Finance Department, over/short procedures, and a procedure to notify the appropriate University authority in event of loss.

13.0 ACCOUNTS RECEIVABLE

13.1. Purpose and Scope

The purpose of the accounts receivable policy is to ensure that AUBH is paid for services rendered and goods sold by maintaining accurate billing and timely collection for services and goods provided. The policy provides the appropriate accounting and recording processes for student and non-student accounts receivable transactions.

The scope of this policy includes:

- Definitions
- Basic Rules
- Student Billing Statements
- Classification
- Recording Accounts Receivable
- Payment Methods
- Recording Receipts
- Recording Uncollectible Accounts Receivable
- Write Off of Accounts Receivable
- Refunds Issued to Student Accounts
- Recording Discounts
- Valuation and Carrying Amount
- Non-Tuition Charges and Credits
- Long-term Student Financing

13.2. Student Tuition and Fees

13.2.1. Payment Deadlines

- University students are required to pay their tuition and fees based on the due dates set at the beginning of the academic year.

13.2.2. Late Payments and Fines

- University students must adhere to AUBH regulations and deadlines. Failure will result in fines. All fines must be approved by the HEC.
    - Late payment of tuition fees will incur a late fee.

- Late registration will incur a late fee.
- Fines apply to failed direct debits, returned cheques, health and safety violations, and late book returns.
- Other fines may be deemed necessary by the President and will require the prior approval of the HEC.

13.2.3. Tuition Refund Policy

- A student wishing to withdraw from a course or courses must submit a Withdrawal Form to the Registrar Office. An official Refund Form attached with supporting documents should be submitted to the Finance Department.
- All refund requests will be processed within 20 working days.

Dropping/Withdrawing from Courses:

- In the event a student drops a course during the add/drop period, the student will be refunded 100% of the tuition and fees for the course as long as the student maintains the minimum credit hours for the semester. Non-attendance of classes does not imply that the student has dropped the course, and the tuition and fees will be applicable.
- In the event a student withdraws from a course after the add/drop period, the student will not be refunded for the tuition and fees of the course.

Withdrawing from the Semester/University:

- In the event a student chooses to completely withdraw from the University or a semester, the following refund schedule will apply for the paid tuition and fees excluding the non-refundable fees and deposits:

Schedule	**Refund**
Before the end of the Add/Drop period	100%
After the Add/Drop period	0%

- For programs that do not have an add/drop period, there will be a 0% refund after 2-weeks from the start of the semester.

13.2.4. Scholarships & Financial Aid

- The University may offer scholarships or financial aid to students to begin or complete their studies. All scholarships and financial aid offered are at the discretion of the University and may change from time to time.

13.2.5. Family Tuition Discount

- To avail a family tuition discount, two or more first degree family members must be registered as students in any University program. The family tuition discount is offered at the discretion of the University and may change over time.

13.2.6. Installment Plans

- The University offers students installment payment plans for tuition and/or fees, over the period of a semester (summer semester not included). The installment plan is offered at the discretion of the University and may be revoked or changed over time.

13.3. Policies

13.3.1. Basic Rules

- Payments due to the University from either student accounts, sponsors, or non-student accounts are considered accounts receivable and are recorded by the FP.
- The Finance Department is responsible for billing and collecting on goods or services provided by University departments and goods or services utilized by AUBH-affiliated organizations.
- Accounts receivable may only be established by the Finance.
- Direct billings by any University department, outside of the Finance department, are a violation of this policy.
- Student tuition and fee invoices or billing statements are emailed or posted online for students' viewing at least five working days prior to payment due date. Changes to the student accounts during the add/drop period will not extend the due date. Sponsor invoices are issued no later than three weeks after the start of the semester and are mailed or emailed with a 30-day payment term.
- Generally, the University requires that student accounts be paid in full before the last day of the add/drop period, with a possible extension up to two weeks approved by VPFA, or that a written installment payment plan be consummated between the student and the University.
- On a periodic basis, at least monthly, the FP should generate a report of all invoices or billing statements that have not been paid in full. Follow-up is prioritized by the number of outstanding days (i.e., follow-up begins with oldest invoice). However, other criteria for prioritization are considered, such as the invoice amount and sponsor.

See 14.0 Allowance for Expected Credit Losses

13.3.2. Student Billing Statements

- Student billing statements are created and distributed on a routine basis to all students who have a non-zero balance. FP should note the transaction submission deadlines so that charges will appear in a timely manner on students' accounts. These statements include all items billed for the current period.

See 15.0 Revenue Recognition

13.3.3. Classification

- For financial statement purposes, accounts receivable are generally classified into three categories:
  1) trade receivables (or student receivables),
  2) nontrade receivables (or non-student receivables) and
  3) notes receivable.
- Trade receivables are amounts owed by customers for goods and services sold as part of the normal operations of the business. Nontrade receivables, or other receivables, include items such as advances to employees. Notes receivable consist of the following attributes:
  4) involves a formal promissory note,
  5) may carry interest, and
  6) is of a longer duration.
- Trade receivables are to be reported under a separate heading from other receivables. Notes receivable are classified between current and long-term depending on the length of the collection period.

13.3.4. Recording Accounts Receivable

- For normal business transactions, the University bills students or sponsors for the tuition and fees payments that are considered receivable. Only at the commencement of classes are the accounts receivable recognized, not at the time of billing, unless they are in the same accounting period.
- Accounts receivable are generally recorded for invoices that are expected to be collected within one year. Long-term notes receivable are generally recorded for amounts that are expected to be collected over the course of multiple years.

See 15.0 Revenue Recognition

13.3.5. Payment Methods

- Students may use one of the following methods to pay their tuition fees:
  - Bank Transfer
  - Debit / Credit Cards
  - Checks
  - Cash

- Evidence of payment should be provided to the Finance Department. Students should always quote their ID number and name when making a payment. New students with no ID number should quote the reference number listed on the top of the acceptance letter.

13.3.6. Recording Receipts

- A pre-numbered receipt must be issued to the payer to support received payments of all forms as per 13.4.5 Payment Methods.

13.3.7. Recording Uncollectible Accounts Receivable

See 14.0 Allowance for Expected Credit Losses

13.3.8. Write Off of Accounts Receivable

See 14.0 Allowance for Expected Credit Losses

13.3.9. Refunds Issued to Student Accounts

- A refund issued to a student account should be a reversal of a prior transaction.
- All refunds must be approved by the VPFA.

See 13.0 Accounts Receivable

13.3.10. Recording of Discounts

See *15.0 Revenue Recognition*

13.3.11. Valuation and Carrying Amount

- Accounts receivable should be recorded at the present value of future cash receipts using a realistic interest rate, if it applies. The difference between the future and present values of accounts receivable often is immaterial which in turn excludes accounts receivable from the general rule that receivables be recorded at present value. Therefore, the University is to value accounts receivable and current notes receivable at the amount agreed upon by the University and the student that is expected to be collected in cash (i.e. the net realizable value).

See *14.0 Allowance for Expected Credit Losses*

13.3.12. Non-Tuition Charges and Credits

- Departments throughout the University submit miscellaneous student (non-tuition) charges to the Finance Department or Bursar to be included in students' account ledger. Some examples of non-tuition charges billed are late fees, lost library books, health and safety fines, and special events.

13.3.13. Long-Term Student Financing

- The University may offer long-term financing to qualifying students, allowing these students to make tuition payments on an incremental basis over the course of the semester or academic year, in the form of a student payment plan. On occasion, the payment plan will encompass a period longer than one year and is classified as a long-term receivable. These financing receivables must be classified on the Balance Sheet as either short or long-term. A short-term receivable is one in which the maturity date is less than one year from the period end date (or Balance Sheet date). A long-term receivable is one in which the maturity date is greater than one year from the period end date. The past due status of a receivable does not affect its classification on the Balance Sheet as short or long-term.

- The Company records the long-term and short-term portions in the following manner:

  Long-Term Portion:
  This entry is used to properly account for receivable amounts from long-term financing that are not due to be collected within one year.
  Dr. Long-Term Accounts Receivable BHD XXXX
  Cr. Deferred revenue* BHD XXXX

  *The credit to this transaction can be to revenue or deferred revenue, depending on the timing of the transaction, but will generally be deferred revenue.

  See *15.0 Revenue Recognition*

  Short-Term Portion:
  The portion of long-term financing which is due within one year must be recorded as a current asset. The following entry is used to properly account for the current portion of long-term financing that are expected to be collected within the year.
  Dr. Short-Term Accounts Receivable BHD XXXX
  Cr. Long-Term Accounts Receivable BHD XXXX

  See 14.0 Allowance for Expected Credit Losses

13.3.14. Collection

- Responsibility for the collection of tuition fees and any other monies due to the University lies with the VPFA.
- The University Council will approve the collection process and procedures that will be generally followed unless there is a special arrangement agreed upon with the counterparty that is approved by the President or COO and the VPFA. These arrangements should align with the details specified in the approved Delegation of Authority (DOA).

14.0 ALLOWANCE FOR EXPECTED CREDIT LOSS

14.1. Purpose and Scope

The purpose of the allowance for expected credit losses and bad debt policy is to ensure that the University's student and non-student accounts receivable balances are properly monitored and valued by estimating and providing for an adequate allowance for the receivables that are uncollectible or potentially uncollectible. The policy also defines the criteria for determining when a receivable balance should be written off.

The scope of this policy includes activities associated with monitoring, valuation, and write-offs to AUBH's receivables accounts. The scope of this policy includes:

- Roles and Responsibilities
- Definitions
- Basic Rules
- Allowance Percentages
- General Reserve Analysis
- Specific Reserve Analysis
- Consideration of Deferred Revenue in Calculation of Allowance for ECL
- Installment Plans
- Collection Process
- Write-Off Against ECL Allowance
- Collection of Previously Written-Off Accounts

14.2. Policies

14.2.1. Basic Rules

- Generally, the University requires that student accounts be paid in full before the last day of the add/drop period or that an installment payment plan is executed between the student and the University. The University is responsible for appointing a specific employee or employees to conduct follow-up student collections calls or emails each month and determine that the student is meeting the necessary requirements of his/her payment plan.

<u>The following are general requirements for the review of the Allowance for ECL:</u>

- All Accounts Receivable must be evaluated using an aging report, short-term and long term separately, and each segregated into 3 main categories:
  1) Active Students
  2) Inactive Students – graduated
  3) Inactive Students – not graduated
  4) Non-Students
- Inactive student (not graduated and graduated) receivables > 270 days past due = 100% reserved.
- All receivables past due 365 days or more should be 100% reserved.
- A refinanced or renegotiated receivable must be aged based on original transaction due date.
- The aging buckets are:

1-90 Days
91- 181 Days
182-270 Days
271-365 Days
366+ Days

- Allowance percentages for each aging bucket must be calculated based on historical trends at the beginning of every year, which will be approved by the VPFA.

- Allowance for Expected Credit Losses (ECL) should be in alignment with the details specified in the approved Delegation of Authority (DOA).

14.2.2. Allowance Percentages

- The allowance percentage used for each aging bucket should be based on recent collection history for the University (12 to 18 months prior to current Balance Sheet date). This is performed by starting with an aging analysis within the past 12 to 18 months and analyzing collections of those amounts only over the following 12-to-18-month period. This collections analysis should disregard collections of amounts invoiced during that period, as these amounts represent an incomplete process.
- This process should be documented for the review of the auditors.

14.2.3. General Reserve Analysis

- The University is required to perform a general reserve analysis on a quarterly basis as a minimum.
- A true-up is required to determine the appropriateness of the balance of the Allowance for ECL based on the aged accounts receivable as of that date.
- The FP will prepare the analysis and calculation for the review and approval of the VPFA.
- This analysis should be documented for the review of the auditors.

14.2.4. Specific Reserve Analysis

- The University is required to perform a specific reserve analysis in addition to the general reserve provision on a quarterly basis as a minimum.
- Any outstanding balance that is known to require a reserve will be specifically reserved. The FP shall review these balances and propose the required reserve amount for the VPFA approval. The VPFA will assess whether an Allowance for ECL or direct write-off is required. If a direct write-off is required, approval from ARC must be obtained.

14.2.5. Consideration of Deferred Revenue in Calculation of Allowance for ECL

<u>General Reserve Analysis</u>

- The Allowance for ECL is calculated using aged outstanding accounts receivable balances. The accounts receivable balances used in the calculation should only be balances where revenue has previously been recognized. In other words, there should be no Allowance for ECL on receivables that are associated with deferred revenue. The process of calculating the necessary Allowance for ECL should include netting any deferred revenue against its associated accounts receivable by product.

<u>Specific Reserve Analysis</u>

- For specific reserve analysis, where students are anticipated to default on their entire accounts receivable balance, the accounts receivable balances (full billed amount) used in the calculation should be considered in whole, where it may be associated with revenue that has previously been recognized and with deferred revenue.
- When calculating the Allowance for ECL, the portion of the accounts receivable balance that is associated with revenue will be a debit to provision for ECL expense account, and the portion of the accounts receivable balance that is associated with deferred revenue will be a debit to the deferred revenue account.
- If a direct write-off is approved, the portion of the accounts receivable balance that is associated with revenue will be a debit to bad debt expense account, and the portion of the accounts receivable balance that is associated with deferred revenue will be a debit to the deferred revenue account.

14.2.6. Installment Plans (Students only)

- In cases where students are on installment payment plans, the receivable amounts are reviewed and the likelihood that the entire payment will be collected is considered and included as necessary into the reserve accounts. The realizability of the receivable balance should be reviewed by the VPFA.
- The University may require post-dated checks, direct credit card payments, or direct bank account debits for students opting for payment plans. This ensures that revenue is not recognized on student's accounts where uncertainty exists with regard to collectability.
- Aging for installment plan receivables should be performed using the entire receivable balance based on the oldest installment due.

14.2.7. Termination

- The University Council will approve the termination process and procedures that will be generally followed unless there is a special arrangement agreed upon between the President or COO and the VPFA.

14.2.8. Write Off Against Allowance for ECL

- When all collection efforts have been exhausted, the uncollectible account will be recommended by the VPFA for write-off, which requires the approval of ARC.
- The write-off will involve crediting the Accounts Receivable account and debiting the Allowance for ECL account with the amount of the write-off.

14.2.9. Collection of Previously Written Off Accounts

- Tuition payments received on student accounts that were previously written off are recognized directly in the income statement, as a debit to the cash account and credit to the provision for ECL or bad debt expense account depending on the method used for the write-off.

15.0 REVENUE RECOGNITION

15.1. Purpose and Scope

The purpose of this policy is to describe AUBH's policies relating to revenue recognition. The policy provides instructions for recognizing payments (e.g., receipts) from University customers (students) as well as other revenue. The policy also addresses how the University handles student installment payments, which are made throughout the course of the University's programs as well as the total number of weekly periods associated with each program. The University's revenue recognition policy also considers student scholarships and discounts, which offset the revenue earned.

The scope of this policy includes:

- Definitions
- Types of Revenue Recognized
- Revenue Recognition Methods
- Recognition Calculation
- Deferred Revenue
- Transaction Fees on Tuition Payments
- Gifts for Future Periods
- Sample Journal Entries

15.2. Policies

15.2.1. Types of Revenue Recognized

- The University has various sources of revenue. The University recognizes the majority of its revenue from student tuition and fees. Other sources of revenue arise from donations, space rentals, and merchandise etc.

15.2.2. Revenue Recognition Methods

- The two conditions for the recognition of revenue are:
  1) When revenue is realized or realizable.
  2) When revenue is earned.

  The two conditions are usually met by the time product or merchandise is delivered or services are rendered to customers.

- Revenue is generally realized or realizable and earned when all of the following criteria are met:
  - Persuasive evidence of an arrangement exists
    - There must be documented evidence of a contractual arrangement with a customer before any revenue recognition can occur. This documentation can come in various forms: a signed contract that is legally binding on both parties, a purchase order (“PO”), or an invoice sent to a customer, which provides evidence of an agreement (the invoice must have sufficient detail to document the exact products or services being billed).
  - Delivery occurred or services have been rendered
    - For goods sold, delivery is not considered to have occurred until title and the risk and rewards of ownership have passed to the customer.
  - The seller’s price to the buyer is fixed and determinable
    - Fixed fee required to be paid at a set amount that is not subject to refund or adjustment.
    - The cost of tuition and other services offered by the University to students are clearly defined and evaluated and no changes in prices are made during the semester periods.
  - Collectability is reasonably assured
    - Revenue should not be recognized if, at the time of sale, cash collection is in doubt or contingent upon other events such as completing a milestone specified in the contract.

- The University’s revenues are realized when the services it provides or goods it sells are exchanged for cash or claims to cash. Revenue is considered earned when the services have been rendered, or the goods are delivered, and students or customers have received the benefits relating to their payments.

- There are various categories of revenue. The below section provides guidance on when to recognize each type of revenue:

Type of Revenue	**Recognized**
Tuition	Recognized ratably over the semester, based on at least a weekly attribution method.
Books, Supplies, or Merchandise	Recognized when cash is collected and goods are delivered.
Assessment exam Fee	Recognized when fee has been received and exam has been taken.

Space Rental Fee	Recognized when service are rendered.
Penalties (e.g. Late Payment Fee, Late Registration Fee)	Recognized when paid.
Donations and Gifts (from unrelated party)	Unconditional monetary gifts are recognized upon receipt of the gift. Pledged gifts are recognized when collectability is reasonably assured and written evidence signed by the donor is obtained. Conditional gifts are recognized when cash has been received and the condition of the gift has been met.
Government Support	Recognition to match the period of the expense supported or life of the asset supported.

15.2.3. Recognition Calculations

Exam (Assessment) Fee

- For those in which fees are charged for specific exams, the revenue earned from each student's exam fee is recognized when the fee is received by the University and the exam has been taken, as it is a one- time fee requirement and is an up-front payment to the University regardless of whether the student passes or fails the exam.

Registration (Admission) Fee

- Some students are required to pay a registration fee to the University. The payment allows the student to obtain University identification and complete the process of registering as a student within the University. The fee is non-refundable and will be recognized when received.

Tuition

- Revenue is recognized over a semester on a monthly basis, measured by weeks. The recognition period normally begins with the first week of semester and ends with the last week of an exam. To accurately represent when revenue may be recognized, University programs are divided into weekly periods (by semester). In order to properly allocate revenue over the semester period, weeks are measured in complete 4- or 5-semester days, which eliminate incomplete periods at the beginning and end of the University program. This method ensures there are no incomplete weeks for any program and revenue allocations are evenly dispersed throughout the course of the program.
- To recognize revenue, the University runs a monthly attrition report which accurately identifies the number of students currently enrolled and removes departing students. The enrollment totals help to maintain an accurate detail of tuition payments that are to be received from current students. For further details on tuition revenue not collected, see *14.0 Allowance for Expected Credit Losses*.
- As services the University provides to its students are rendered over the semester, the revenue is measured based on readily available contractual prices established in advance. Deductions and scholarships are subtracted from gross revenue to arrive at the net revenue amount.

$$\frac{\text{Net Tuition}}{\text{Number of Full Semester Weeks}} = \text{Amount to Record per Week}$$

(See paragraph above on how to calculate full weeks)

Revenue Offset

- Amounts that offset or reduce revenue items are considered debits or charges to revenue. Revenue offsets include scholarships, financial aid, discounts, rebates, allowances provided for services or goods sold to customers of the University, and adjustments for overpayments made by customers of the University or erroneous amounts charged to customers of the University.
- Unless a specific object code exists to record income offsets, they must be recorded as debits/charges

to the original income coding. (e.g., the coding used to initially record the related income), not as expenses or debits to object code “Miscellaneous Income.”

Revenue Recognition after Student Drops Out

- No Refund is Due
  - If a student drops out of the University after the refund period, and the student has pre-paid their tuition, revenue should continue to be recognized weekly as the semester continues. If the student has not pre- paid their tuition, but because of the timing of their drop out, the student still owes tuition, the University must make an assessment as to whether or not this tuition is collectible. Although, legally the student might owe the tuition, most likely the collectability is low. Therefore, revenue for this situation should be recognized on a cash basis, as cash is received.
- Refund is Due
  - If the student drops out during a semester and a refund of pre-paid tuition is due, revenue can only be recognized for the non-refundable amount. The refund amount should be recorded as a liability until paid to the student.

15.2.4. Deferred Revenue

- Basic rules for deferred revenue:
  - Revenue is recognized in the Statement of Profit or Loss when the University meets all four of the criteria mentioned above:
    1) Persuasive evidence of an existing arrangement,
    2) delivery occurred or services have been rendered
    3) the seller’s price to the buyer is fixed and determinable, and
    4) collectability is reasonably assured.
- In some cases, payment is received for goods or services that the University will provide at a future date or over the course of a defined period of time. In these cases, the entire amount is deferred as a liability and an appropriate deferred revenue account must be credited. A portion of revenue must be deferred at period end if a portion of the services have not yet been rendered or if any of the four criteria are not met.
- In the case of revenue for goods or services provided over the course of a multiple-month term (e.g., subscriptions or a semester of classes), the portion related to the future period subsequent to period end may be determined by:

  1) Calculating the number of weeks remaining in the semester of the agreement at period end;
  2) Dividing this number of weeks by the total number of weeks covered by the advance payment;
  3) Multiplying the advance payment amount by this percentage.
- The calculated amount that relates to subsequent periods must be deferred. Deferred revenue is also referred to as “unearned revenue,” indicating that the revenue is not earned until goods are provided or services are rendered.
- The offsets made to those tuition payments received are considered as deferred revenue until the weekly periods elapse and the revenue is recognized over those weekly periods. See Recognition Calculation section above for detailed recognition of tuition revenue. The tuition amounts are listed as deferred and the amounts incrementally decrease as the semesters progress.

Recognition of Deferred Revenue (Timing)

- Accounts Receivable should be recognized when services are provided and collection is reasonably assured. AUBH accepts the earliest to recognize accounts receivable and deferred revenue at the commencement of classes, for each semester. Student prepayments are to be recorded to Student Deposits Liability Account.

- Accounts Receivable and Deferred Revenue should be recognized for the current semester only, when:
  1) Student is enrolled in the semester
  2) Collection is reasonably assured
  3) Semester has begun

<u>Potential Scenarios</u>

- If the student drops out, revenue recognition should stop immediately.
- If exact attrition is not tracked during the semester, an estimate of drop-outs should be recorded during the semester and trued up to actuals at the end of the semester.
- If the student drops out and continues to pay – revenue can still be recognized, but only if collection is assured, not just legally entitled.
- If the student drops out and continues to pay, but their payments are being applied to the next (or second) semester, revenue recognition for the current semester must stop and the cash received is recorded as a student deposit (deferred revenue) and recognized as revenue during the second semester.

<u>Recognition and reversals of deferred revenue</u>

- Deferred revenue must be reduced or recognized into Revenue in the period or periods that the revenue is earned (e.g., when the goods are shipped or services are provided). The department processing a deferred revenue journal entry should be responsible for reversing the entry or reducing the deferred revenue balance as the revenue is earned.

<u>Reconciling deferred revenue balances</u>

- The University must reconcile and maintain supporting documentation for their month end deferred revenue balances.

15.2.5. Transaction Fees on Tuition Payments

- In some instances, a University may allow the student to pay their tuition using a payment channel that is associated with transaction fees e.g. credit card. The financial institution will charge the University a fee for processing the transaction. This fee charged to the University should be expensed on the University's books as it is incurred.
- If the student drops out or withdraws prior to the start of the semester the student will receive a refund of their tuition that was pre-paid. If that student paid through a payment channel associated with a payment fee, the students' refund is the tuition paid less the transaction fee charged to the University. This refund policy does not change the accounting for the initial transaction charge. The transaction charge will still be expensed as incurred.

15.2.6. Gifts Relating to Future Periods

- Unconditional gifts and non-government sponsored grants are recognized as revenue immediately upon receipt. Revenue is generally deferred when the gift or grant is considered conditional and the condition has not been met.
- A gift will be considered as unconditional if it is made to or for the University or any constituent part of the University for the benefit of all or any of these organizations, or for the carrying out of any of their functions, without further specification as to its purpose or manner of use. A gift will be considered as conditional if the donor restricts its purpose to support a specific research study, project, or conference; to support activities of a University employee identified by name or organizational title; for specifically identified functions, such as ceremonies, community outreach activities, or purchase of specific items or types of equipment, or other specific uses.

16.0 ACCOUNTS PAYABLE

16.1. Purpose and Scope

The University shall ensure that proper internal controls are in place to ensure that only valid and authorized payables are recorded and paid in an accurate and timely manner. The policies set forth in this section of the manual aim to achieve the following:

- Ensure invoices are processed as per agreed terms
- Ensure internal payment requests are made in line with company policies
- Ensure payments are made only when due and payable
- Ensure liabilities are fully recorded and recognized using appropriate measures
- Maximize processing efficiency
- Ensure better vendor relations

The scope of this policy includes:

- Definitions
- Purchase Orders
- Invoice processing
- Internal payment requests
- Payment processing
  - Electronic banking
  - Check payments
  - Bank card payments
  - Cash payments
- Period-end activities
- Payments in excess or by mistake
- Payroll processing

16.2. Policies

16.2.1. Purchase Orders

- The Procurement function will issue Purchase Orders for goods or services requested by respective departments, after ensuring the following: (1) request is properly authorized in line with the Delegation and Authority Manual; (2) request is reviewed and approved by Finance department to ensure availability of budget. The entire process is governed by the Procurement Policy.

16.2.2. Invoice processing

- The Procurement function in the Finance Department is responsible for maintaining the vendor master database and relevant details pertaining to each vendor.
- Spending shall be within the limits of the allocations listed in the approved Annual Budget and Delegation of Authority Policy.
- Disputes with vendors should be dealt with in the first instance by the requesting Department and Procurement Officer who handled the request. Should initial discussions prove unsuccessful in resolving the dispute, the matter shall be referred to Legal counsel.
- It is the primary responsibility of the Finance Department to ensure appropriate recording of the liability. All financial encumbrances should be recorded in the encumbrances record, and the commitment amount to be allocated from approved Annual Budget.
- There are three types of invoices to be considered:

1) Contract based invoices, where a contract exists with a vendor for the services or goods provided. A copy of the contract has to be attached with the invoice as a supporting document.
2) Purchase order invoices, where a purchase order is issued for the services or goods. The three-way matching is applied here, where the Purchase Order, Quotation, and Invoice are matched. In most cases, there will also be a delivery note or service report.
3) Direct invoices, which are invoices not related to a directed supply for goods or services, and are usually recurring, such as telephone or utility bills.

- The requesting Department, or Cost Center, is responsible for verifying the correctness of the invoice and confirmation that the goods or services have been received. The head of this department shall approve the invoice for further processing by the Finance Department. All invoice copies and supporting documents are uploaded to the accounts payable system and attached to the invoice recording.
- Invoices denominated in foreign currency shall be recorded in its currency for the following currencies: USD, GBP, EUR, SAR, AED. Otherwise, the amount shall be converted using a foreign currency rate on the date of invoice recording.

16.2.3. Internal payment requests

- Internal payment requests are initiated by AUBH employees, students, or board directors and trustees. These requests are made by completing appropriate internal forms and should be signed/approved by the respective immediate reporting line in case of employees, department dealing the student in case of students, and the President/COO/Board Secretary in case of directors or trustees. Examples of such requests are:
  - Employee per diem
  - Petty cash reimbursements
  - Business expense claims
  - Student refund

16.2.4. Payment processing

- It is the primary responsibility of the Finance Department to ensure the timely and accurate processing of payments, to ensure that payments are made when due and on the agreed terms.
- An employee cannot certify or make payments if they are the beneficiary or if they have a personal (financial or non-financial) interest in the transaction. In such cases, the payments must be certified by someone with a higher level of authority.
- Payments shall be adjusted for any purchase returns, discounts, advances, or credit notes that may exist, given the approval of the requesting Department.
- Any discount available from the vendor will be specified in writing, either on the invoice or via a separate memo.
- When making a advance payment, it has to be ensured that the contract or PO requires an advance payment.
- If a payment is made for an expense that covers multiple time periods, or a prepayment, the expense will be spread over time if the monthly allocation is equal to or greater than BHD 100. The amount shall be amortized by expensing the prepayment properly with the time period that it effects.
- There are four forms of payments:
  1) Wire (or electronic) transfers
  2) Cheque payments
  3) Credit/prepaid card payments
  4) Cash payments
  5) Petty cash payments
- The type of payment used to settle the invoices will depend on several factors, mostly being the jurisdiction of the vendor, the currency of the invoice, and the preference of the vendor.

- The Finance Department will maintain at least soft copies of the cheques, bank transfer letter, and credit/prepaid card payment confirmations for filing purposes; hard copies shall be maintained where necessary.
- Segregation of duties over initiation and approval of payments is imperative. Payments cannot be initiated and solely approved by the same individual. The payee, amount, and purpose of the payments are required.
- Payment instructions will be duly signed/approved in accordance with the Delegation of Authority Policy and Authorized Bank Signatories approved by the Board of Directors. This applies to all methods of payment, except for credit/prepaid card payments.

<u>Electronic Transfers</u>

- Electronic (or wire) transfers may be initiated via the electronic banking platform used by AUBH or by issuing a bank transfer letter printed on the company letter head addressed to the bank with the transfer instructions. The Finance Department must retain a copy of the wire transfer instructions and file it with the payment voucher.

<u>Check Payments</u>

- Cheques will only be released to the beneficiary or delivery personnel when a receipt confirming the delivery or collection of the cheque is provided, or having the receiver sign a copy of the cheque as way of confirmation. The Finance Department must retain a copy of the cheque and file it with the payment voucher.
- A Manager Cheque will be issued if required by the third party.
- Stopping cheque payments
  - Stopping a cheque is the responsibility of the Finance Department.
  - The Finance Department notifies the bank in writing of requests to stop payment of cheques along with the reasons.
  - The cheque is considered cancelled directly upon receiving written confirmation from the bank that the cheque was not paid and that all necessary procedures have been taken to cancel it.
  - Accounts payable and bank account records must be amended to reflect details of the cancelled cheque after receiving a confirmation from the bank that the cheque has been cancelled.
- Lost, stolen, or damaged cheques
  - A cheque must be stopped immediately once the beneficiary informs the company that it was lost or stolen. If the cheque is paid by the bank before presenting the stopping payment notification, the beneficiary is informed that he is not legally entitled to a replacement cheque. However, any possible assistance should be provided to him in order to recover the value of the stolen cheque.
  - Issuance of replacement cheques will occur only after receiving confirmation from the bank that the stolen cheques have been stopped.
- Expired, Damaged, or rejected cheques
  - Cheques are expired if not cashed within the legal validity period. The payment voucher relating to this cheque shall be voided and the ledger will be updated accordingly.
  - Beneficiaries must return the cheques that cannot be cashed due to damage or rejection by the bank.
  - A new cheque may be issued in place of expired, damaged, or rejected cheques when the beneficiary returns the original cheque.
  - If the beneficiary misplaced the expired, damaged, or rejected cheque, a written request must be received from the beneficiary stating the situation with a request to re-issue the cheque.
  - Approval from VP Finance & Administration must be obtained before issuing a new cheque.

<u>Bank Card payments</u>

- Bank (credit/prepaid/debit) cards may be used as a means of payment for online (internet) purchases, retail purchases, entertainment, travel expenses, or when the vendor may only accept credit cards.

- The issuance and assignment of Bank Cards to employees shall follow the *Corporate Bank Cards Policy*. Each bank card holder is authorized to use their assigned card within the authorized usage as outlined in the *Corporate Bank Cards Policy*.
- Refer to the *Corporate Bank Cards Policy* for more information.

Cash payments
- **Approval for Cash Payments:** Cash payments are permissible only under special conditions, requiring the prior approval of the Finance Manager, VPFA, or a higher authority. This ensures that cash transactions are monitored and justified.
- **Payment Authorization and Limits:**
  - For expenses up to BD 100, the Finance Department may authorize payments directly from the petty cash fund. For more information on petty cash, refer to *12.3.8. Petty Cash Fund*.
  - For amounts exceeding BD 100, either a 'CASH' cheque will be issued for withdrawing the necessary funds, or payment will be made via petty cash, subject to obtaining the requisite approvals.
- **Receipt and Documentation:** A cash receipt must be acquired from the vendor as proof of payment, ensuring that all cash transactions are documented and traceable.

16.2.5. Period-end activities

- The accounts payable ledger will be reconciled with the general ledger on a monthly basis. Should exceptions arise, it will be referred to the respective Department to investigate differences.
- A monthly accounts payable ageing report will be generated giving details of payments due for 0-30 days, 31-60 days, 61-90 days and more than 90 days from the invoice date. An explanation must be provided for any invoice aging for a period more than 60 days.
- A quarterly Purchase Order (PO) report will be generated listing all open POs. Should irregularities exist it will be investigated for rectification. Any PO open for over 6 months shall be considered an irregularity. In the PO report, all irregularities shall be documented. POs that need to be cancelled shall be manually closed in the system and filed in the ‘Closed PO’ file with proper justification for the reason of closure.
- A monthly report will be generated for liabilities due for payment in the forthcoming month to help with cash flow forecasting.
- All reports need to be reviewed by the Finance Manager. Any high-level exceptions noted in the reports will be highlighted to the VP Finance & Administration.

Recording of Payables
- At the end of each reporting period, the Finance Department shall request all the departments to submit all unpaid invoices to have them recorded in the payables.
- The payable ledger shall be updated to reflect all available unpaid invoices.

Recording of Accruals
- At the end of every month, the Finance Department will record all recurring monthly expenses if no invoice was received at the time.
- At the end of every quarter, the Finance Department will record for goods/services received but not billed.

Payments in excess or by mistake
- If the Finance Department discovers that an erroneous payment was processed or the amount paid was in excess to the liable amount, they should contact the party or person from whom the amount

was paid, by phone and in writing, to request him to return the amount on the same day, if possible, or within five working days.
- In the case of procrastination or refusal to return the money, the Finance Department must take necessary action to deduct the amount from the beneficiary's current or future amounts payable, or from the insurance or guarantee amounts available with the company if any. Legal counsel must be sought to take any other appropriate actions.
- The general ledger and accounts payable must be adjusted to show the amounts paid by mistake and to maintain an account in the general ledger to record these payments and follow up on reconciling them.

16.2.6. Payroll processing

- The payroll is handled by the Human Resources (HR) Department. The VP Finance & Administration will receive the payroll from the HR Department for review and approval. The bank payroll instructions will be circulated to the authorized signatories as per the Delegation of Authority Policy.
- The general entries for payroll will be recorded by the Finance Manager.

For details relating to payroll processing, please refer to the *HR Policy*.

17.0 CAPITAL EXPENDITURE (CAPEX)

17.1. Purpose and Scope

The purpose of this policy is to help the reader identify and properly account for capital expenditures.

The scope of this policy includes:
- Definitions
- Requirements for Capitalization of Expenditures
- Repairs and Maintenance
- Additions
- Improvements
- Accounting Treatment of Expenditures

17.2. Policies

17.2.1. Requirements for Capitalization of Expenditures

- Costs incurred during asset ownership consist of additions, improvements, alterations, rehabilitations, replacements, repairs, etc. In general, such costs should be capitalized when they significantly extend the useful life, increase the capacity or improve the efficiency or safety of the asset and should be expensed when they do not. In some cases, the capitalization decision should be based on other factors such as the size of the expenditure, the property unit used, or the length of the period to be benefited. If, for example, a new part will extend the life of a machine, it still may be expensed if its cost is small, if the old part is depreciated as part of the machine rather than separately or if the part has a short life in relation to the life of the machine.
- To be classified as a capital expenditure, the expenditure should increase future benefits in one or more of the following ways:
  1) An extension of the useful life of the asset.

2) An increase in the operating efficiency of the asset resulting in either an increase in the quantity of goods or services produced or a decrease in future operating costs.
3) An increase in the quality of the goods or services produced by the asset.

- If the expenditure does increase future benefits in any of the above ways then the cost should be capitalized and expensed over multiple periods through depreciation, depletion, or amortization. However, it should be noted that a threshold can be set so only material capital expenditures are treated this way. See threshold below, to be used as a guideline (BHD):

Category	**Threshold for Capitalization**
Leasehold improvements	BHD 250 (in total project costs)
Moveable furnishings and equipment (MFE)	BHD 100
Other equipment, vehicles, software, etc.	BHD 100

- Companies adopt policies specifying the minimum cost that a property unit must have before it is capitalized. These policies are acceptable as long as the minimum is reasonable and, where necessary, exceptions are made to recognize that such policies are merely conventions. If, for example, an enterprise has a BHD 100 minimum capitalization policy and buys one chair for BHD 99, the expensing of the expenditure would be proper. However, if the same company buys 1,000 chairs at one time, the expenditure should be capitalized. Similarly, if the same company assembles a machine from five parts, each costing BHD 90, the cost of the parts should be capitalized. AUBH's policy is to expense all items less than BHD 100.

17.2.2. Repairs and Maintenance

- Repairs and maintenance expenses maintain a level of benefits provided by an asset. Therefore, they do not apply to any of the above conditions and should be expensed when incurred.

17.2.3. Additions

- Additions are expenditures incurred as an addition of a new major component to an existing asset. Additions should be capitalized and depreciated over the remaining useful life of the original asset or over the useful life of the addition, whichever is shorter. The capitalized amount should include all necessary expenditures to bring the addition to a condition and location for use including shipping and installation. An example of necessary expenditures is tearing down and removing a wall to add on an addition to a building.

17.2.4. Improvements

- Expenditures classified as improvements involve the replacement of a major component of an operational asset. The component can be either a new component with the same capabilities as the old component or a new component with enhanced operating capabilities. An example of an improvement is a refrigerator unit in the cafeteria could be replaced with a new similar refrigerator unit or could be replaced with a new and improved refrigeration unit. Both would be considered improvements because they both extend the future benefit of the cafeteria.
- There are three methods used to record the cost of improvements:

<u>Substitution</u>
The improvement can be recorded as both a disposition of the old component and the acquisition of a new component. This is only applicable if the original cost and accumulated depreciation of the old component can be separately identified.

Capitalization of the new cost

This method involves recording the cost of the new component (net of any consideration received from the old component) as a debit to the assets account. The original accumulated depreciation and cost should not be removed. This approach can only be used if depreciation of the original component has been reduced to an immaterial amount. This is the most common method used.

17.2.5. Accounting Treatment of Expenditures

Type of Expenditure	**Normal Accounting Treatment**
Additions	Capitalize cost of addition to asset account.
Improvements	Carrying value is known: Remove cost and accumulated depreciation on old asset, recognizing any gain or loss. Capitalize cost of improvement/replacement.
	Carrying Value is unknown: Capitalize cost of improvement to asset account.
Repairs	Ordinary: Expense cost of repairs when incurred.
	Major: As appropriate, treat as an addition, improvement, or replacement

18.0 FIXED ASSETS

18.1. Purpose and Scope

The purpose of this policy is to describe AUBH’s policies relating to proper accounting for the acquisition, capitalization, depreciation, and disposal of assets. Additionally, the policy describes those policies concerning accounting for asset impairment, valuations, transfers, construction, and repairs.

The scope of this policy includes:

- Definitions
- General Rules for Accounting Classification
- Acquisition
- Valuation
- Capitalization
- Non-Capital Assets
- Derecognition
- Recording Gains and Losses on Disposition
- Depreciation
- Change in Useful Life
- Placing Assets into Service
- Review for Impairment
- Fixed Assets Register and Tagging
- Annual Fixed Assets Verification
- Assets Held for Sale
- Idle Assets
- Transfers
- Exchange of Nonmonetary Assets
- Insurance

18.2. Policies

18.2.1. General Rules for Accounting Classification

Classification of Furniture,Fixtures, and Equipment and Useful Life

Classification	Useful Life (years)
Audiovisual Equipment: All assets relating to the purchase of audio or visual communication. Microphones, speakers, loudspeakers, amplification systems, televisions, screens, and projectors are included as audiovisual equipment.	5
Classroom Furniture: All assets relating to the acquisition of furniture to be used directly inside classrooms as assistance to the teaching staff.	5
Clinic Furniture: All assets relating to the purchase of furniture needed for the accomplishment of everyday work in the clinics.	5
Computer Equipment: All assets relating to the acquisition of computers, minicomputers, personal computers, peripherals, or additional tools required.	3
Laboratory Furniture: All costs related to the purchase of furniture needed for everyday lab work.	5
Laboratory Equipment: All assets relating to the acquisition of specialized laboratory equipment and machinery.	5
Library Furniture: All costs related to the purchase of furniture needed for the everyday work of the library.	5
Library Equipment: All assets relating to the acquisition of specialized library equipment.	5
Library Books: All costs related to the purchase of physical library books.	5
Facilities General/Maintenance Equipment: All assets relating to the acquisition of equipment for general maintenance services, whether preventative or corrective, such as ladders, compressors, trimmers, vacuum cleaners, sanders, drills, water pumps, welding tools, saws, wheelbarrows, hoists, etc.	5
Medical Equipment: All assets relating to the acquisition of appliances or instruments for medical purposes, whether for prevention, diagnostic, or patient recovery, such as oxygen tanks, sterilizers, scales, etc.	5
Office Equipment: All costs relating to the acquisition of equipment needed for the improvement or automation of office activity (excluding computer equipment), such as lock boxes, water coolers, photocopiers, binders, and laminators.	5
Office Furniture: The cost of acquisition of furniture and supplies for the accomplishment of office work.	5
Sports Equipment: All assets relating to the acquisition of sports equipment.	5
Sports Furniture: All assets relating to the purchase of furniture needed for the accomplishment of everyday work in the sports facilities.	5
Transportation Equipment: All assets relating to the acquisitions of vehicles for transportation of people or things, except those used for maintenance services.	5
Telecommunication Equipment: All assets related to the exchange of information, whether it is via voice, data or video through the Company network or space. Such equipment includes shortwave radio equipment, digital switches, voice terminals, routers, satellite dishes, servers, etc., and any item dedicated to communicating through radio signals, television, optical fibers, etc.	3

18.2.2. Acquisition

- Prior to purchasing capital assets, the department seeking to acquire the capital asset must determine whether the acquisition is budgeted or unbudgeted. If the asset was not included in the budget, follow the steps regarding “Non-Budget Capital Assets”.

Non-Budget Capital Assets

- Non-budget capital asset requests must be approved by the authorized personnel, as per the approved Delegation of Authority Policy.

Budgeted Capital Assets

- Fixed assets are acquired through the same method as supplies, through the procurement process. Refer to the Procurement Policy.

18.2.3. Valuation

- A fixed asset is valued at the acquisition cost, net price paid by cash or its equivalent, plus all expenses necessary to put it in place to permit its function, (i.e. import costs, freight charges, insurance, and installation costs, value added tax, etc.).
- Upon buying or receiving in exchange multiple fixed assets without specifying the price that corresponds to each individual item, the total cost should be distributed between the items based on the relative value of each asset, determined by expert appraisers.
- If assets are acquired by redemption or exchange of other assets, an equivalent measurement of the cost of the acquired asset is the amount of money that would have been obtained if the exchanged assets had been acquired in cash. In the case of assets that do not have a definable market value, use the market value of the goods received in exchange as the unit of cost.
- Contributed fixed assets should be valued at fair value.
- Assets acquired with foreign currency should be recorded according to the historical exchange rate in effect at the date of the asset’s acquisition.

Rules of Valuation

- **Machinery, Furniture, and Equipment:** Valued at cost of acquisition and manufacturing, in conjunction with transportation and installation costs.
- **Tools:** Comprised of machinery tools. Machinery tools have longer useful lives and are easy to control individually.
- **Improvements / Modifications:** Fixed asset improvements are expenditures with the purpose of increasing the value of an existing asset by increasing its service capacity, efficiency, prolonging its useful life, or helping to reduce future costs of operation. Costs of improvements or modifications are recorded separately from the original cost of the asset.
- **Maintenance:** Routine maintenance is not capitalizable since the purpose is to maintain the asset in normal service conditions. If the maintenance results in repairs that prolong the useful life or increase the productivity or value, then the maintenance should be capitalized as an improvement.
- **Modifications or Improvements to Leased Buildings**: Disbursements that increase the value of the building, either because they increase the service capacity, efficiency, prolong the useful life, or help reduce future operating costs. These improvements are capitalized. Leasehold improvements are normally amortized over the shorter of the useful life of the asset or the lease term, that includes lease periods and renewals that are deemed to be reasonably assured.
- **Reconstruction:** When fixed assets are modified completely (to a greater extent than improvements or repairs), the modifications represent reconstruction. The value of the asset is increased and the costs are capitalized. If the work is a near-total reconstruction, it is considered a new asset and the prior asset is eliminated. If parts of the prior unit have been utilized in the reconstruction, the book values or estimates of the parts are added to the reconstruction cost.

18.2.4. Capitalization

- All fixed asset purchases over a determined value with a useful life longer than twelve (12) months will be capitalized. All purchases below the determined value threshold or below the (twelve) 12-month threshold will be expensed as incurred.

Refer to the Capitalized Expenditures (CAPEX) policy for the threshold guidelines.

Costs to Capitalize

- **Cost of Equipment:** Equipment refers to computers and other office equipment, vehicles, furniture, and fixtures. The cost of equipment includes the purchase price plus any sales tax, transportation costs paid by the buyer, installation costs, testing, legal fees to establish title, and any other costs of bringing the asset to its condition and location for use. To the extent that these costs can be identified and measured, they should be included in the asset's initial valuation rather than expensed currently.
- **Improvements:** Major and significant repairs and reconstructions made that will extend the asset's service life, increase the asset's productivity, or increase the value of the asset.
- **Self-Constructed Assets:** Those assets that are self-constructed require time to create it. During this time, the project must be financed in some way. All costs during this period, including interest, should be capitalized and then allocated as depreciation during later periods when the assets are providing benefits.
- **Purchased software systems:** Purchased software systems are also capitalized and included in the equipment category for financial reporting purposes. Basic operating software for personal computers is normally included in the cost of the personal computer (see *19.0 Costs of Software Obtained or Developed for Internal Use Policy*).

Costs to Expense

- **Equipment-Related Costs:** Certain costs could be considered necessary to make an asset ready for use but are difficult to measure. For example, the cost of training personnel to operate lab equipment is hard to associate with specific assets.
- **Routine Repairs and Maintenance:** Services completed in order to maintain assets in their current conditions.
- **Food and Entertainment Expenditures:** Costs that do not directly add value to the asset, such as employee or student gifts, parties, entertainment or food.
- **Certain Moving Expenditures:** Moving or storage of an existing fixed asset.
- **Feasibility Studies:** unless directly identifiable to a fixed asset.
- **Internally developed software costs:** see *19.0 Costs of Software Obtained or Developed for Internal Use Policy*.

18.2.5. Non-Capital Assets

- Physical equipment with a value greater than or equal to BHD 50 and less than BHD 100 with a useful life greater than one-year shall be tracked in the Non-Capital Assets register. This register will include as a minimum the asset ID, description, date of purchase, and location. The asset ID will be assigned in the tagging process. The non-capital assets must be verified in an annual basis during the Asset Verification process.

18.2.6. Derecognition

- Derecognition of fixed assets is needed when the assets no longer have value.

- The types of events that will lead to derecognition are:
  - End of useful life
  - Obsolescence
  - Theft of the asset

  - Damage to the asset (either due to natural causes or through accident)
  - Sale of the asset
- Each department/division must prepare a list of all fixed assets that are to be disposed and send the list to the Finance department. The disposal listing must include a description of the asset, tag identification number, and location of the asset.
- When an asset is retired from service for obsolescence or destruction, the cost and accumulated depreciation are written off; the net book value plus the cost of removal and disposal, should be reflected as a loss, net any realizable value or scrap value realized. An asset can be considered disposed of through abandonment when it is no longer in use.

18.2.7. Recording Gains and Losses on Disposition of Assets

- Depreciation must be taken up to the date of disposition, and then all accounts related to the retired assets should be removed. Since depreciation is an estimate of cost allocation and not a process of valuation, a gain or loss will occur upon disposal. Gains or losses on the retirement of fixed assets used in operations should be shown in the income statement under continuing operations.

18.2.8. Depreciation

- The Company depreciates fixed assets on a straight-line basis, based on both the depreciable rate as well as the useful life of the asset, in accordance with local regulations and IFRS. The value of the asset is spread over the expected useful life of the asset in such a way as to allocate its cost as fairly as possible over its service period. The depreciation method estimate of useful life, and salvage value of assets are the same as the methods and estimates used for calculations in the financial statements. In the event VP of Finance & Administration decides, for valid business purposes, that an asset should not be depreciated using the useful lives as defined, this exception must be documented and approved by Finance department.
- Depreciation of a fixed asset should begin in the month of purchase. If a fixed asset is recorded in the books in a period after it was placed in service, the depreciation calculation will be adjusted to reflect the deprecation from the date when it was placed in service.

18.2.9. Changes in Useful Life

- The application of changes in estimate should be prospective, in accordance with IAS 8 on Accounting Policies, Changes in Accounting Estimates, and Errors.
- If an asset's useful life is changed to a shorter life than originally estimated, the depreciation should be adjusted prospectively.

18.2.10. Placing Assets into Service

- Fixed assets should be reflected in the Company's financial statements (i.e., recorded) when the significant benefits and risks of ownership rest with the Company. Fixed assets are considered placed into service when the asset is deemed ready for its intended use.

18.2.11. Review for Impairment

- As per IAS 36 Impairment of Assets, impairment sources may be external or internal:

  <u>External sources encompass:</u>
  Market value declines, Negative changes in technology, markets, economy, or laws, Increases in market interest rates, Net assets of the company higher than market capitalization.

Internal sources include:
Obsolescence or physical damage, Asset being idle, part of a restructuring, or held for disposal, Worse-than-expected economic performance for investments in subsidiaries, joint ventures, or associates, where the carrying amount exceeds the investee's assets' carrying amount, or a dividend surpasses the total comprehensive income of the investee.

- Determining recoverable amounts:
  - If fair value less costs of disposal or value in use exceeds the carrying amount, there's no need to calculate the other amount, and the asset is not impaired.
  - When fair value less costs of disposal cannot be determined, the recoverable amount is the value in use.
  - For assets intended to be disposed of, the recoverable amount is the fair value less costs of disposal.

- The Company notes a number of examples of "impairment indicators," which are summarized below, this list is not all inclusive:
  1) A significant decrease in the market price of a long-lived asset.
  2) A significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition.
  3) A significant adverse change in legal factors or the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator.
  4) An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset.
  5) Current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset.
  6) A current expectation that, more likely than not (i.e., greater than 50%), a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.
- These "impairment indicators" are examples and should not be considered the only indicators. Should management identify other more appropriate impairment indicators for their specific operations, these indicators should be used as well. If an indicator is not present, Finance department can initiate impairment testing anytime it believes the circumstances warrant it.

18.2.12. Fixed Assets Register and Tagging

- The University must maintain a fixed assets register. The register may be maintained manually or on a specialized system.
- To appropriately identify each asset in the Company's possession, the asset should be assigned an identification code. When an asset is received, the Finance department assigns and affixes the asset with the unique code.
- The contents of the fixed assets register must include as a minimum the following:
  - Asset code
  - Asset category
  - Vendor name
  - Description of asset
  - Date of utilization
  - Cost
  - Depreciation period
  - Depreciation
  - Book value
  - Location

18.2.13. Annual Fixed Assets Verification

- The University is required to verify the fixed assets on an annual basis. This process involves performing a physical check on all assets accounted for in the fixed assets register. Adjustments to assets must be reviewed and approved by the VP Finance & Administration for all significant adjustments.
- The Finance department will resolve and post adjustments to the fixed asset ledger and/or general ledger to remove all reconciling items between the two on an annual basis.

18.2.14. Assets Held for Sale

- The Company may have a discontinued asset and is holding the asset to sell, but at the end of its reporting period it has not yet disposed of the asset. The asset can be considered held for sale if:
  1) Management, having the authority to approve the action, commits to a plan to sell the asset.
  2) An active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated.
  3) The sale of the asset is probable and transfer of the asset is expected to qualify for recognition as a completed sale, within one year.
  4) The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
  5) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

- Approval of assets held for sale must be in line with the Delegation of Authority Policy.
- If the Company's component meets the above conditions and is intended for sale, the Company will measure it at the lower of its carrying amount or fair value less cost to sell, and will cease depreciation or amortization on that component since it is no longer in use by the Company. On the income statement, although the asset is held for sale and no transaction has been completed, the Company will report the effects of the segment or assets held for sale in the same manner as a discontinued operation, with the operating income (loss) of the segment or assets for the entire fiscal period included, as well as any impairment loss if the carrying value of the segment or assets is greater than the fair value less cost to sell.
- The Finance Department will manage the process of the sale of assets and record the underlying accounting entries for such treatment.

<u>Discontinued Operations</u>

- If the Company disposes of assets, it must consider whether the asset or group of assets constitutes a clearly defined component of the business and has business and cash flows that can be clearly identified and can be easily "distinguished, operationally and for financial reporting purposes". If the disposed asset group can be identified as such, it will be recorded as a discontinued operation if the operations and cash flows of the asset group have been (or will be) eliminated from the ongoing operations of the Company as a result of the disposal, and the Company will not have any significant continuing involvement in the operations of the component after the disposal.
- If the discontinued operation is sold before the end of a fiscal period, the loss or gain of the component's operations as well as the gain or loss on the disposal or sale should be included in that year's financial statements.

18.2.15. Idle Assets

- If fixed assets belonging to the University have had their usage stopped for a period of time, but are not disposed because they will be used again in the near future, these fixed assets are considered idle. Since the idle assets will be put to use again in a short period of time, the Company will continue to depreciate them during the period of inactivity.

- If the University has no future plan for the use of idle fixed assets, they should be evaluated for impairment or written off.

18.2.16. Transfers

- Fixed assets can be transferred between University departments. In order to initiate the transfer, the Fixed Asset Transfer Form must be completed. While an asset is in transit, risk of ownership remains with the original purchasing department. Any damage, theft, or obsolescence relating to the asset during this time is the responsibility of the originator, not the future user. Once the new location has custody of the fixed asset, the risk of ownership is passed to the new user. No gain or loss on transfer is to be recorded, since the asset is still the property of the University and there has been no change in ownership.

18.2.17. Exchanges of Nonmonetary Assets

- In general, accounting for the exchange of nonmonetary assets should be based on the fair value of the asset given up or the fair value of the asset received, whichever is clearly more evident. Any gains or losses on the exchange should be recognized immediately. If the fair value of either asset is not reasonably determinable, the book value of the asset given up should be used as the basis for recording the nonmonetary exchange.
- The general rule above applies to the exchange of dissimilar nonmonetary assets. The general rule of immediate recognition does not apply when similar nonmonetary assets are exchanged for a gain. However, if similar nonmonetary assets are exchanged at a loss, the loss is recognized immediately.

18.2.18. Insurance

- The University will obtain insurance cover for all electronic and laboratory machinery and equipment. Insurance claims will be as per the insurance policy.

19.0 NON-CAPITALIZED ASSETS

19.1. Purpose and Scope

The purpose of this policy is to establish a comprehensive register for non-capitalized assets valued at BHD 25 or above to ensure effective tracking, utilization, and safeguarding. This register will assist in asset management, facilitate financial reporting, and support compliance with relevant regulations.

It applies to all non-capitalized assets, including office supplies, minor equipment, and software, with an initial purchase value of BHD 25 or more. This policy covers the entire lifecycle of these assets from acquisition to disposal.

19.2. Policy

19.2.1. Asset Definition and Capitalization Threshold

Non-capitalized assets are those not meeting the company's capitalization criteria (see *17.0 Capital Expenditure*) but hold significant value (BHD 25 or more) and have a useful life extending beyond the purchase year. These assets are essential for operational efficiency but are not capitalized due to their lower cost.

19.2.2. Registration Process

- **Initial Entry:** Upon acquisition, each qualifying asset must be recorded in the non-capitalized asset register, including details such as description, acquisition date, cost, location, custodian, and identifying marks or numbers.

- **Ongoing Updates:** The register should be immediately updated upon asset disposal. The register should be updated for any asset movement, change in custodianship, or condition following the periodic physical verification.

19.2.3. Register Maintenance

- **Format and Accessibility:** The register may be maintained in a digital format for ease of access and update. Access to the register should be controlled and limited to authorized personnel.

- **Physical Verification:** Conduct periodic physical verifications to ensure the accuracy of the register and the physical presence of recorded assets.

- **Audit and Compliance:** Regular audits should be performed to verify compliance with this policy and the accuracy of the asset register.

19.2.4. Roles and Responsibilities

- **Finance Department:** Responsible for overseeing the maintenance of the asset register, ensuring policy compliance, and conducting periodic audits.

- **Department Heads and Asset Custodians:** Ensure the proper use, safeguarding, and reporting of asset changes in their custody.

19.2.5. Disposal and Write-off Procedures

Establish clear procedures for the disposal or write-off of non-capitalized assets, including the removal from the register and ensuring proper approvals are obtained.

20.0 COSTS OF SOFTWARE OBTAINED OR DEVELOPED FOR INTERNAL USE

20.1. Purpose and Scope

The purpose of this policy is to describe AUBH's policies for accounting for the costs incurred in developing or acquiring software for internal use by the Company in accordance with International Financial Reporting Standards (IFRS).

The scope of this policy includes:

- Characteristics
- Development Stages
- Expense
- Capitalization
- Materiality

- Maintenance Costs
- Upgrades and Enhancements
- Data Conversion and Business Process re-engineering
- Purchased and Licensed Software
- Amortization
- Impairment of Capitalized Costs
- Accounting for Cloud-Based Software
- Financial Reporting and Disclosures

20.2. Policies

20.2.1. Characteristics

- Internal use software is software that has the following two characteristics:
  1) The software must be either acquired, internally developed, or modified solely to meet the company's internal needs; and
  2) During the software's development or modification, no substantive plan exists, or is being developed, to market the software externally. (A substantive plan is one whose implementation is reasonably possible. Such a plan would dictate different accounting treatment.)
- If a company uses and sells its own software, the software is accounted for as software to be sold, leased, or otherwise marketed rather than software developed for internal use. Software that is to be sold, leased or otherwise marketed is accounted for differently (not under this policy), under different accounting guidance than software for internal use.

20.2.2. Development Stages

- Computer software development typically passes through the following stages:

  1) Preliminary Project Stage = Costs are expensed
     - Conceptual formulation to final selection of alternatives
  2) Application Development Stage = Costs are generally capitalized, except data conversion, training and reengineering*
     - Design of chosen alternative, coding, installation, & testing
  3) Post-Implementation/Operation Stage = Costs are expensed
     - Training, maintenance, & ongoing support

*Note: See "Financial Reporting and Disclosure" section.

<u>Stages of Software Development</u>

Preliminary Project	Application Development	Post Implementation
Reengineering	Reengineering	Reengineering
<u>Alternative Selection</u>: • Conceptual Formulation • Evaluation • Software Selection • Consultant Selection	Data Conversion Training	Data Conversion Training

Determining if Technology Exists	Software Development*: • Designing • Coding • Installing to Hardware • Testing * includes purchased software	Post-Contract Support Agreements Maintenance

Note: The shaded area indicates the internal use software costs eligible for capitalization.

20.2.3. Expense

- All preliminary internal and external costs incurred prior to the Application Development Stage must be charged as a period expense when incurred. Costs shall be charged either to: direct costs, research & development (R&D) expense, or selling, general or administrative (SG&A) expense, as appropriate.
- Companies must also expense Post-Implementation/Operation Stage activities such as maintenance and training. For example, costs incurred to physically train an employee are to be expensed, regardless of the stage of the project. General and administrative costs and overhead costs are also not eligible for capitalization and must be expensed. For example, depreciation and rent cannot be allocated and capitalized even if it is directly related to the project.

20.2.4. Capitalization

- The types of costs eligible for capitalization are limited to:
  1) External direct costs of materials and services consumed in developing or acquiring internal use software (including travel costs),
  2) Payroll and payroll-related costs (e.g., employee benefits) for time spent directly on the project for those employees directly associated with the project, travel costs for internal personnel directly associated with the project while working on capitalizable activities (per this policy), and
  3) Costs to develop a training/help module within a software package.
- Capitalization begins when both of the following occur:
  1) The Preliminary Project Stage has been completed; and
  2) Management authorizes and commits to funding a software project for which it believes project completion is probable and that the software will be used for its intended function.
- Capitalization ends no later than the point at which the software project is substantially complete and ready for its intended use. If, during the capitalization period, it becomes probable that the project will not be completed and placed in service, the capitalization of costs shall end. In addition, a charge should be recognized on the basis that the asset should be reported at the lower of the carrying amount or fair value, less costs to sell.

20.2.5. Materiality

- All eligible costs for software for internal use incurred are capitalized. At the discretion of the VPFA, immaterial projects may be expensed.

20.2.6. Maintenance Costs

- Internal and external costs for maintenance shall be expensed as incurred.

20.2.7. Upgrades and Enhancements

- Costs of specified upgrades and enhancements to internal use software may be capitalized if it is probable that those costs will result in significant additional functionality.
- Internal costs of upgrades and enhancements made to existing software shall be 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 shall be expensed as incurred.
- External costs of specified upgrades and enhancements are expensed or capitalized based on the same criteria that are applied to newly acquired software. External costs incurred under an agreement to provide:
  1) unspecified upgrades and enhancements; or
  2) maintenance combined with unspecified upgrades and enhancements shall be expensed over the contract period, generally on a straight-line basis.

20.2.8. Data Conversion and Business Re-engineering

- Data conversion often occurs during the Application Development Stage. Costs associated with the process of data conversion (e.g., purging, reconciliation, creation of new data) from old to new systems shall be expensed as incurred. However, costs for developing software that allows for access, interface, or conversion of old data by new systems shall be capitalized using the same guidelines contained in this policy.
- The cost of business process reengineering ("BPR") or activities or gap analysis, whether done internally or by third parties, is to be expensed as incurred. Typical BPR costs are:
  1) current state assessment (mapping, developing an "as-is" baseline, flow charting, determining current business process structure); and
  2) process reengineering (analysis, determining "best-in-class" status, profit/performance improvement development, developing end-state processes); and
  3) restructuring the work force.

20.2.9. Purchased and Licensed Software

- The cost of purchased software may include multiple elements such as training, maintenance fees, data conversion, reengineering costs, and rights to future upgrades and enhancements. The total cost of the software must be allocated among all individual elements based on objective evidence of their relative fair values (which may be different than the separate prices stated within the contract). The allocated fair value of elements that is not eligible for capitalization (e.g., training and maintenance) must be excluded from the capitalized cost of the software.

<u>Guidelines for implementation of purchased software, including packaged/ERP software</u>

- Costs associated with the purchase of an Enterprise Resource Planning (ERP) software package and other packaged software products must be allocated among the individual elements. The costs incurred usually follow the below four steps:
  1) Gap analysis or business process mapping – Expense
  2) Configuration of purchased software (costs to get ready for intended use) – Capitalize
  3) Data transfer – expense
  4) Training – expense

<u>License Fees</u>

- License fees paid to third parties for rights to use their software (e. g., desktop applications) are generally excluded from the scope of this policy. If license fees are paid in advance, they should be recorded as prepaid expense.
- Note: License fees for rights to use software that are transferred to AUBH in perpetuity are accounted for as purchased software. If the license has no expiration date or indeterminate life, the life assigned

to that asset should represent the useful life or the expected time the product will be used. The maximum life to be assigned should not exceed the life of the hardware in which it is installed.

20.2.10. Amortization

- Amortization of software development costs will be based on economic life or contractual terms. Generally, amortization will be on a straight-line basis over a period of three to five years. For each module or component of a software project, amortization begins when the computer software is ready for its intended use.

20.2.11. Impairment of Capitalized Costs

- The unamortized balance of capitalized software for internal use shall be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In that event, an estimate is required of the future cash flows (undiscounted) expected to result from the use of the asset and its eventual disposition. If the amount of unamortized capitalized software is in excess of the sum of the future undiscounted cash flows, an impairment loss shall be recorded. The amount of the impairment loss shall be the difference between the book value and the fair value (typically determined using discounted expected cash flows) of the unamortized capitalized software.
- If the software asset is not expected to provide any future service potential, it shall be retired and accounted for as if abandoned or held for sale and reported at the lower of its carrying amount or fair value less costs to sell.

20.2.12. Accounting for Cloud-Based Software

Types of Cloud Services

Software as a Service (SaaS)	**Platform as a Service (PaaS)**	**Infrastructure as a Service (IaaS)**
• refers to software applications that are delivered over the Internet, on demand and usually via subscription • cloud providers host and manage the software and associated infrastructure, and handle maintenance (i.e. upgrades) • users connect to applications over the Internet (via web browser on smart devices or PC)	• refers to cloud computing services that supply an on-demand environment that developers can use to develop, test, deliver and manage software applications • allows developers to create web or mobile apps without the need to set up or manage the underlying infrastructure (i.e. servers, storage, networks, databases)	• refers to the most basic group of cloud computing services • customer pays for scalable IT infrastructure from a cloud provider on a pay-as you-go basis. This includes servers, storage, networks, and operating systems • can be a fixed or scalable capacity

General Principles of Cloud Services

- In a cloud arrangement, the right to access hardware or software does not generally result in any title transfer or license being granted. The cloud service provider may opt to vary the underlying platforms used, location of assets and technology as long as the contracted service is being delivered. As such, the ability to apply cost capitalization principles to cloud arrangements is limited.
- Upfront costs may be capitalized and amortized over the contracted service period. However, ongoing monthly fees should be expensed as incurred as an operating expense, not amortization.
- If the cloud arrangement includes a software license, which may typically be the case with PaaS or

IaaS, the arrangement falls within the general principles of intangible accounting. A good rule of thumb is that cloud software license agreements should be capitalized if both of the following principles are met:

1) the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty, and
2) it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software.

If neither of these criteria are met, then typically the software would be recorded as an operating expense.

- If the arrangement does not include a software license, as would be most likely the case for SaaS, the arrangement is a service contract and therefore ongoing payments are treated as operating expenses, regardless of whether they are cancellable or not.

Costs of Implementation and Data Migration

- Implementation may cover a range of activities, each of which is likely to have a different potential accounting treatment. Typically, implementation includes evaluation of providers, installation and configuration costs, integration with existing systems and middleware, training, data migration and customization.
- The table below illustrates what costs are typically capitalized and expensed. Determining which activities in the implementation process are eligible for capitalization requires judgement and an analysis of the nature of costs incurred.

Stage of implementation process	**Cost treatment**
Preliminary project stage • Internal/external costs prior to selection of a provider	• Expense as there is no specific future benefit at this stage
Installation and implementation • Internal and external costs incurred, modify provider offerings or develop bridging modules to existing systems or bespoke additional capability • Configuration and set up of provider offerings and customization	• Capitalize, where code is developed internally for which the provider does not obtain IP rights • Judgmental depending on extent and substance of modifications and incremental capability being added
Training costs at implementation • Employee training costs • Development of training materials / content	• Expense employee training costs as there is no intangible asset controlled by the company • Capitalize costs of developing training materials, e-learns and content that is retained by the company
Data conversion costs • Including purging or cleansing of existing data, reconciliation or balancing of the old data and the data in the new system, creation of new or additional data, and conversion of old data to the new system	• Expense as there is no future benefit obtained in migration to a system that is not owned by the user
Post implementation - Operation stage • Internal and external people training costs and maintenance costs	• Expense as there is no future incremental economic benefit

- Similar considerations would arise in multiple staged deployments where each phase or module provided through the cloud would need to be separately assessed.

Amortization of Capitalized Costs – The Useful Life

- Capitalized initial costs should generally be amortized over the life of the service arrangement on a straight-line basis. The amortization should not be based on expectations about the entity's use of the software (for example, how many users access the software or volume of transactions in a given month).

- The amortization period may be extended beyond the non-cancellable period of the service to include:
  - periods covered by an option to extend if the user is reasonably certain it will exercise that option,
    and
  - periods covered by an option to terminate if the entity is reasonably certain it will not exercise that option.
- The amortization period assessment will need to be reassessed periodically, with any change accounted for prospectively as a change in estimate.

[1]Pricewaterhousecoopers, Accounting for cloud-based software, IFRS Spotlight, September 2018.

20.2.13. Financial Reporting and Disclosures

- Capitalized software costs are classified within intangible assets on the balance sheet.

21.0 INTANGIBLE ASSETS

21.1. Purpose and Scope

The purpose of this policy is to describe AUBH's policies relating to proper accounting for the valuation and amortization of intangible assets. Additionally, the document describes those policies and procedures concerning the requirements for Company Trade Names as well as the process of obtaining accreditation.

All identification and valuation procedures are in accordance with IFRS.

The scope of this policy includes:

- Applicable Definitions
- Valuation
- Useful Life
- Amortization of Intangibles
- Recognition and Measurement of an Impairment Loss
- Cost of Defending Intangible Rights
- Financial Statement Presentation

21.2. Policies

21.2.1. Valuation

<u>Purchased Intangibles</u>

- Intangibles acquired either individually or with a group of other assets shall be initially recognized and measured based on its fair value. The cost of a group of assets acquired in a transaction shall be allocated to the individual assets acquired based on their relative fair values and shall not give rise to goodwill. All acquisition costs and start up expenditures for the purchasing company to make the asset ready for its intended use are included in the intangible asset valuation. If the intangible is purchased using an asset other than cash, the cost will be considered equal to the fair value of the consideration given or the fair value of the intangible received, whichever is more readily measurable.

Internally Generated Intangibles

- An intangible created within an organization and the direct costs of internally developing, maintaining, or restoring intangible assets are expensed as incurred. Any fee which is subsequently incurred to defend, renew or protect it can be capitalized. Research and development costs are not allowed to be capitalized as intangibles.

21.2.2. Useful Life

- The accounting for a recognized intangible asset is based on its useful life. An intangible asset with a finite (determinable) useful life is amortized; an intangible asset with an indefinite useful life is not amortized. The useful life of an intangible asset to an entity is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of that entity. The estimate of the useful life of an intangible asset to an entity shall be based on an analysis of all pertinent factors, in particular:
    - The expected use of the asset by the entity
    - The expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate
    - Any legal, regulatory, or contractual provisions that may limit the useful life
    - Any legal, regulatory, or contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost
    - The effects of obsolescence, demand, competition, and other economic factors
    - The level of maintenance expenditures required to obtain the expected future cash flows from the asset

- If the precise length of the useful life is not known, then a best estimate of its useful life shall be made.
- If no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset shall be considered to be indefinite. The term indefinite does not mean infinite.

21.2.3. Amortization of Intangibles

- A recognized intangible asset shall be amortized over its useful life unless that life is determined to be indefinite. The method of amortization shall reflect the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up. If that pattern cannot be reliably determined, a straight-line amortization method shall be used. An intangible asset shall not be written down or off in the period of acquisition unless it becomes impaired during that period.
- The amount of an intangible asset to be amortized shall be the amount initially assigned to that asset less any residual value. The residual value of an intangible asset shall be assumed to be zero.
- An entity shall evaluate the remaining useful life of an intangible asset that is being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the intangible asset shall be amortized prospectively (going forward) over that revised remaining useful life. If an intangible asset that is being amortized is subsequently determined to have an indefinite useful life, the asset shall be tested for impairments. That intangible asset shall no longer be amortized and shall be accounted for in the same manner as other intangible assets that are not subject to amortization.

21.2.4. Recognition and Measurement of an Impairment Loss

- An intangible asset must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the intangible is not amortized (i.e.: goodwill, tradename), the impairment test shall consist of a comparison of the fair value of an intangible asset with its carrying amount.
- If the intangible is being amortized an impairment loss should be recognized if the carrying amount of the intangible asset is not recoverable and its carrying amount exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows (a proxy for fair value) expected to result from the use and eventual disposition of the asset.
- Certain events or circumstances may occur that would result in the Company performing a test for impairment in between its annual test, if the occurrence of the event would likely reduce the fair value of the reporting unit. Examples of such events or circumstances would be, but are not limited to, the following:
  - Significant or adverse change in legal or business climate
  - An adverse action or assessment by a regulator
  - Unanticipated competition
  - A loss of key personnel
  - A more-likely-than-not expectation that a reporting unit, significant portion of a reporting unit, long-lived asset or group will be sold or disposed of
  - Significant decrease in the market price of a long-lived asset
  - Significant adverse change in the extent or manner in which a long-lived asset (or group) is being used or in its physical condition
  - An accumulation of costs significantly in excess of the amount originally expected for the acquisition of a long-lived asset
  - Current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection/forecast that demonstrates continuing losses associated with the use of a long-lived asset group
- A loss due to the impairment of an asset is to be recorded as an operating expense on the income statement.

21.2.5. Cost of Defending Intangible Rights

- The Finance department will determine the appropriate treatment of significant costs incurred in defending an intangible asset, where the defense is successful. All other costs incurred during the defense of an intangible asset should be expensed as incurred.

21.2.6. Financial Statement Presentation and Disclosure

- At a minimum, all intangible assets shall be aggregated and presented as a separate line item in the statement of financial position. However, that requirement does not preclude presentation of individual intangible assets or classes of intangible assets as separate line items. The amortization expense and impairment losses for intangible assets shall be presented in income statement line items within continuing operations as deemed appropriate for each entity.

22.0 LEASEHOLD IMPROVEMENTS

22.1. Purpose and Scope

Provide a framework for review and approval of leasehold improvements in order to avoid unintended accounting consequences.

This guidance is a supplement to the Lease policy and Fixed Assets policy.

22.2. Policies

22.2.1. Accounting Treatment – Recordation and amortization

- The improvements made by a lessee to leased property revert to the lessor at the expiration of the lease term. As improvement costs are incurred under a finance lease, the leasehold improvement account is charged. Upon completion, the leasehold improvements are amortized to expense over their useful life. Leasehold improvements are included under the property, plant, and equipment section of the balance sheet.

23.0 DIRECT AND DEFERRED COSTS

23.1. Purpose and Scope

The purpose of this policy is to describe AUBH's policy for capturing, defining, and reporting direct and deferred costs relating to the development of products and services.

The scope of this policy includes:

- Definitions
- Overview
- Direct Costs
- Deferred Costs
    - Recognition
    - Accreditation
    - Curriculum Development
    - Advertising
    - Student Recruitment
    - Internally Developed Software
    - Internally Developed Intangible Assets
    - Deferred Financing Costs

23.2. Policies

23.2.1. Overview

- The Company frequently incurs costs prior to recognizing revenue generated by providing service to its students. The major costs incurred by the Company include accreditation, curriculum development, advertising, customer acquisition, installation and setup of fixed assets, start-up, internal development of software, and real estate projects. Whether these costs are deferrable depends on the nature of the cost and the realizability of the asset.
- Direct and deferred costs must be reasonable, allocable, allowable, and treated consistently in the budgeting and expenditure process.

1) Reasonable - Must be necessary for the performance of the product or service.
2) Allocable - Must be easily identifiable with the product or service and be assigned to the product or service only in accordance with the benefits received by the product or service.
3) Allowable - Costs that are reasonable, allocable to products or services under the principles and methods outlined in International Financial Reporting Standards (IFRS).

23.2.2. Direct Costs

- Direct costs of the University that are generally expensed as incurred (i.e., recognized immediately) include:
  - Classroom supplies
  - Consulting services
  - Equipment costing less than the capitalization threshold (see *17.0 Capital Expenditure*)
  - Fringe benefit costs associated with the salaries of directly charged personnel
  - Long distance telephone charges
  - Other supplies and tools required in the conduct of University programs
  - Rental charges for off campus facilities
  - Salaries of faculty, technical staff, and support staff
  - Travel costs
  - Tuition remission for graduate research and teaching assistants

23.2.3. Deferred Costs

- Deferred costs of the Company are capitalized and amortized over the period of benefit (i.e., life) of the developed product or service. There needs to be clear evidence of future economic benefit that is attributable to the asset, and such cost can be measured reliably. Additionally, deferred costs are recorded for financial obligations related to long-term debt, deferred compensation arrangements, improvements, and specific due diligence work performed for the Company.

Recognition
- Recognition of a deferred cost will be over the life of the deferred cost.

Accreditation
- Direct and incremental third-party costs incurred during the initial accreditation and/or accreditation renewal processes may be deferred. All internal costs related to this process should be expensed as incurred. For example, if a plan has been approved to apply for accreditation and if a third-party consultant is hired to compare the University's programs to the accreditation standards and identify if any issues exist, prior to applying for the accreditation, those third-party costs would be capitalizable. These costs are typically deferred over the life of the accreditation using the straight-line method.

Curriculum Development
- Specific costs relating to curriculum development are eligible for treatment as deferred costs. Direct costs such as external writing of the course curriculum, external third parties and internal labor relating to curriculum development are eligible for capitalization. Costs incurred in the development of in-classroom courses are expensed as incurred. An impairment test is performed on a quarterly basis, in which all courses included in deferred costs are reviewed for inclusion in the catalogue. If a course is no longer listed in the catalogue (i.e., no longer offered), the curriculum is considered impaired and the costs are written off. Indirect costs incurred in curriculum development are not eligible for capitalization.

Advertising
- The Company should generally expense advertising costs as incurred, with some exceptions. An example of an exception pertains to catalog printing. Advertising costs associated with catalog printing may be deferred, however they must be expensed within the fiscal year in which the costs were incurred, if the benefits of such expenditures clearly extend beyond the interim period in which the expenditures were made.

Student Recruitment

- The Company also incurs customer acquisition costs in the process of recruiting students to its universities. These costs may be deferred, only if the associated revenues are being deferred and those revenues should be clearly marked. Costs that are specifically identifiable and direct and incremental from the department responsible for set up of the student file may be deferred over the student life cycle.
- Any additional deferral of student recruitment costs need to be approved by VPFA prior to deferral.

Internally Developed Software

- Costs incurred to develop internal use software may be deferred. See *20.0 Costs of Software Obtained or Developed for Internal Use* for deferral guidelines.

Internally Developed Intangible Assets

- Costs of internally developing, maintaining, or restoring intangible assets (including goodwill) that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to an entity as a whole, shall be recognized as an expense when incurred. The company cannot capitalize internally developed goodwill. For further information on Intangible Assets, see *21.0 Intangible Assets*.

Deferred Financing Costs

- Debt issue costs are deferred and amortized as interest expense over the respective life of the associated debt or finance obligation. Costs of issuing debt include such items as costs of printing bonds and other documents, commissions, fees and expenses of investment bankers, underwriters or others, registration and listing fees, accounting and legal fees pertaining to the financing, and other external, incremental expenses paid to advisors (i.e., to parties other than the lenders) that are directly attributable to realizing the proceeds of debt issued.

24.0 LEASES

24.1. Purpose and Scope

The purpose of this document is to describe AUBH policy for identifying, classifying, and valuing assets the Company acquires through lease arrangements in accordance with International Financial Reporting Standards (IFRS).

The scope of this policy includes:

- Definitions
- Types of Lease Agreements
- Approval of Lease Agreements
- Retention of Lease Agreement Documents
- Accounting by Lessees
- Accounting by Lessors
- Sale and Leaseback Transactions
- Transfer of Ownership
- Lease Register

24.2. Policies

24.2.1. Types of Lease Agreements

- The Company may enter into leasing transactions with counterparties as a lessor or a lessee.

24.2.2. Approval of Lease Agreements

- Upon request, the Finance Department will review the need for new lease agreements for the Company. The Finance Department will review the requests and speak with the requesting party regarding the details of the lease request. Once the Finance Department has reviewed the request, it will make a judgment as to whether it will go forward with a new lease. Once approved, the process of obtaining a lease agreement will continue.
- In most cases, a formal lease agreement must be executed (signed) by the Company and a related purchase order must be issued. Selection of the supplier or contractor will follow the Procurement Policy and Procedures. Authorization and approval levels follow the Delegation of Authority Policy.

24.2.3. Retention of Lease Agreement Documents

- The original and all copies of the lease agreements must be retained in hardcopy and softcopy formats.

24.2.4. Accounting by Lessees

- Upon lease commencement a lessee recognizes a right-of-use asset and a lease liability. [IFRS 16:22]
- The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations or similar. [IFRS 16:24]
- After lease commencement, a lessee shall measure the right-of-use asset using a cost model, unless: [IFRS 16:29, 34, 35]
- i) the right-of-use asset is an investment property and the lessee fair values its investment property under IAS 40; or
- ii) the right-of-use asset relates to a class of PPE to which the lessee applies IAS 16's revaluation model, in which case all right-of-use assets relating to that class of PPE can be revalued.
- Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment. [IFRS 16:30(a)]
- The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. [IFRS 16:26]
- Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability and are initially measured using the index or rate as at the commencement date. Amounts expected to be payable by the lessee under residual value guarantees are also included. [IFRS 16:27(b),(c)]
- Variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss in the period in which the event or condition that triggers payment occurs, unless the costs are included in the carrying amount of another asset under another Standard. [IFRS 16:38(b)
- The lease liability is subsequently remeasured to reflect changes in: [IFRS 16:36]
  - the lease term (using a revised discount rate);
  - the assessment of a purchase option (using a revised discount rate);
  - the amounts expected to be payable under residual value guarantees (using an unchanged discount rate); or
  - future lease payments resulting from a change in an index or a rate used to determine those

payments (using an unchanged discount rate).

- The remeasurements are treated as adjustments to the right-of-use asset. [IFRS 16:39]
- Lease modifications may also prompt remeasurement of the lease liability unless they are to be treated as separate leases. [IFRS 16:36(c)]

24.2.5. Accounting by Lessors

- Lessors shall classify each lease as an operating lease or a finance lease. [IFRS 16:61]
- A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. [IFRS 16:62]
- Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are: [IFRS 16:63]
  - the lease transfers ownership of the asset to the lessee by the end of the lease term
  - the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable that, at the inception of the lease, it is reasonably certain that the option will be exercised
  - the lease term is for the major part of the economic life of the asset, even if title is not transferred
  - at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset
  - the leased assets are of a specialized nature such that only the lessee can use them without major modifications being made
- Upon lease commencement, a lessor shall recognize assets held under a finance lease as a receivable at an amount equal to the net investment in the lease. [IFRS 16:67]
- A lessor recognizes finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. [IFRS 16:75]
- At the commencement date, a manufacturer or dealer lessor recognizes selling profit or loss in accordance with its policy for outright sales to which IFRS 15 applies. [IFRS 16:71c)]
- A lessor recognizes operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis. [IFRS 16:81]

24.2.6. Sale and leaseback Transactions

- To determine whether the transfer of an asset is accounted for as a sale an entity applies the requirements of IFRS 15 for determining when a performance obligation is satisfied. [IFRS 16:99]
- If an asset transfer satisfies IFRS 15's requirements to be accounted for as a sale the seller measures the right-of-use asset at the proportion of the previous carrying amount that relates to the right of use retained. Accordingly, the seller only recognizes the amount of gain or loss that relates to the rights transferred to the buyer. [IFRS 16:100a)]
- If the fair value of the sale consideration does not equal the asset's fair value, or if the lease payments are not market rates, the sales proceeds are adjusted to fair value, either by accounting for prepayments or additional financing. [IFRS 16:101]
- A seller-lessee subsequently measures lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. [IFRS 16:102A]

24.2.7. Transfer of Ownership

- If the lease transfers ownership of the leased asset to the lessee at the end of the lease term, the lessee depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the lessee depreciates the asset from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The leased asset is depreciated from the commencement date of the lease even if the lessee choose not to use the asset from the commencement date.

24.2.8. Lease Register

- The Finance Department must maintain a lease register that contains the lease calculation for each right-of-use-asset or lease agreement.

25.0 ACCOUNTING FOR GUARANTEES

25.1. Purpose and Scope

The purpose of this policy is to describe AUBH policies relating to accounting for guarantee agreements.

The scope of this policy includes:

- Accounting for Guarantees

25.2. Policies

The issuance of a guarantee obligates the guarantor (the issuer) in two respects:

1) The guarantor undertakes an obligation to stand ready to perform in the event that the specified triggering events or conditions occur during the term of the guarantee;
2) The guarantor undertakes a contingent obligation to make future payments if those triggering events or conditions occur:
   - The recognition of this guarantee should occur regardless of the probability of needing to perform.
   - At the inception of a guarantee, a guarantor shall <u>recognize</u> in its balance sheet <u>a liability</u>, at fair value, for that guarantee. *The fair value is to be updated each Balance Sheet date.* The offsetting entry depends on the circumstances in which the guarantee was issued. Generally, the offsetting entry will be to expense or a reduction of revenue.
   - The obligation should be recorded to a liability account, not an allowance or debt account.
   - The maximum potential payment amount should be disclosed in the footnotes for all guarantees issued by the entity.

Some guarantees require <u>disclosure</u> and no recognition in the financial statements. For example:

- Inter-company or common control guarantees.
- A guarantee that is accounted for as a derivative instrument at fair value.
- Equity type items (i.e.: share pledges).
- A guarantee by an original lessee that has become secondarily liable under a new lease that relieved the original lessee from being the primary obligor (that is, principal debtor) under the original lease.

Examples where no entry is needed, however disclosure may be required:

- Pledging the shares held in an entity as a guarantee of the full payment of amounts agreed upon in the share purchase agreement
  - Disclosure only
  - Examples: seller notes, earn-out payments, rent payments and other contingent items
- Subsidiary guarantees the debt of another Laureate entity
  - No disclosure required AUBH

26.0 CONTINGENCIES AND INDEMNIFICATION

26.1. Purpose and Scope

The purpose of this document is to describe AUBH policies and procedures relating to accounting for contingencies and indemnifications.

The scope of this policy includes:
- Definitions
- Contingencies
- Indemnifications

26.2. Policies

- Liabilities for contingencies are recorded when they are probable of occurrence and when the amount of loss is reasonably estimable.
- Penalties are accrued as operating expense and interest as interest expense.
- Litigation contingencies are to be evaluated at the end of each reporting period and adjusted if necessary.

27.0 RELATED PARTY TRANSACTIONS & DISCLOSURES

27.1. Purpose and Scope

The purpose of this policy is to describe AUBH's policies relating to accounting for related party disclosures.

The scope of this policy includes:
- Definitions
- Related Party Transactions
- Disclosure Requirement

27.2. Policies

27.2.1. Related Party Transactions

- Related party transactions include those between:
  1) A parent entity and its subsidiaries.
  2) Subsidiaries of a common parent.
  3) An entity and its principal owners, management, or members of their immediate families.
  4) Affiliates.
- Transactions between related parties commonly occur in the normal course of business. Common transactions with related parties are:
  1) Sales, purchases, and transfers of real and personal property.
  2) Services received or furnished, such as accounting, management, engineering, and legal services.
  3) Use of property and equipment by lease or otherwise.
  4) Borrowings, lendings, and guarantees.
  5) Maintenance of compensating bank balances for the benefit of a related party.
  6) Intra-entity billings based on allocations of common costs.
  7) Filings of consolidated tax returns.

27.2.2. Disclosure Requirement

- Notes or accounts receivable from officers, employees, or affiliated entities must be shown separately as Related Party and not included under a general heading such as notes receivable or accounts receivable.
- Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, shall imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions only if such representations can be substantiated and auditable evidence obtained.
- If the reporting entity and one or more other entities are under common ownership or management control and the existence of that control could result in operating results or financial position of the reporting entity significantly different from those that would have been obtained if the entities were autonomous, the nature of the control relationship shall be disclosed even though there are no transactions between the entities.
- Transactions between related parties are considered to be related party transactions even though they may not be given accounting recognition. For example, an entity may receive services from a related party without charge and not record receipt of the services. While not providing accounting or measurement guidance for such transactions, this requires their disclosure nonetheless.

28.0 CONSOLIDATION

28.1. Purpose and Scope

The purpose of consolidated statements is to present the results of operations and the financial position of AUBH.

The scope of this policy includes:
- Definitions
- General Consolidation
- Subsidiaries
- Consolidating Financial Statements
- Fiscal Periods
- Disclosure

28.2. Policies

28.2.1. General Consolidation

- Consolidated financial statements present the financial position and results of operations of a parent and its subsidiaries as if they were one entity. The consolidated statements and additional information disclosed provide an opportunity for business enterprises to provide information to investors, creditors, and others in understanding and assessing the effects of the differing risks and returns of various activities.

28.2.2. Subsidiaries

- As a general rule, consolidated financial statements should include the statements of the parent company and all of its domestic and foreign subsidiaries. A subsidiary is an entity that is controlled, either directly or indirectly, by another entity. The usual condition for control is ownership of a majority (over 50%) of the outstanding voting stock. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with stockholders, or by court decree. Control can also be achieved by holding a majority of the governing board seats of a University (i.e.: Board of Trustees). Consolidations of all subsidiaries are needed in order to provide the most complete representation of the Company and should be completed by the Company itself.

- In certain circumstances, the majority owner of the outstanding voting stock may not control the investee due to restrictions imposed on the majority owner or special rights granted to the minority shareholder(s). If the majority owner does not control the investee, it should not consolidate the investee. Determining whether such special rights or restrictions overcome the presumption of control requires the use of analysis.
- Ownership may be held directly or indirectly through other subsidiaries. If, for example, two wholly owned subsidiaries of P Company each owned 30% of X Company's voting securities, X would be a subsidiary of P for purpose of consolidation even though X could not be consolidated in the separate statements of the subsidiaries. This would also be the case if P held a 60% interest in each of the subsidiaries. Consultation with Accounts and Finance would be required. When a subsidiary issues stand-alone financial statements, ownership interest held by its parent are not relevant to the determination of consolidating entities for the subsidiary.
- In determining the percentage of voting interest, no recognition should be given to outstanding preferred stock, warrants, options, or conversion privileges of the affiliated company held either by the investor or others, except in rare cases when such securities or rights are, in substance, voting equity interests.

28.2.3. Consolidating Financial Statements

- Consolidating or combining statements may be required by law, loan agreements, or other contractual arrangements. These statements may also be appropriate in lieu of presenting separate statements or financial information for the parent or subsidiaries in consolidated financial statements when this information is necessary or desirable.
- Consolidating or combining statements should include the same information as would be presented (a) in the individual financial statements for each entity and (b) in the consolidated or combined statements for the group. In addition, an elimination column should be included. However, only information material to the consolidated or combined group need be presented when (a) such statements are presented in addition to consolidated or combined statements and (b) the consolidating and combining information is clearly identified as supplemental information presented solely for additional analysis of the consolidated or combined statements and not as a presentation of financial position and results of operations of each component.
- Additionally, any transactions that would be considered intercompany between the Company and any of the subsidiaries are eliminated when preparing the consolidated financial statements. The results would be as if none of the intercompany transactions had ever occurred, as they are internal transactions not involving third parties. The Company must disclose that all intercompany transactions have been eliminated in compiling the consolidated statements.
- If for any reason any of the intercompany transactions are not eliminated, the Company must prepare a statement of the reasons and the methods of the treatment of the transactions.

28.2.4. Fiscal Periods

- In order to properly consolidate financial statements, the subsidiary's financial statements must cover the same period as the Company's financial statements, unless it is not the most practical measure for conformity. If conformity between the Company and subsidiary is not considered practical, the Company must disclose the nature of the fact, the reasons for the lack of practicality, the appropriate period covered by the subsidiary statements and any material or unrecognized events occurring during the period between the subsidiary's and Company's statements. In most instances, the Company and subsidiary will be in conformity and have the same fiscal year-end and the ability to send financial information in a timely manner. If there is a difference in the reporting periods, the subsidiary's financials will include information from two different fiscal years to cover the period consistent with the Company's fiscal year.

- A difference in fiscal periods of a parent and subsidiary does not of itself justify the exclusion of the subsidiary from consolidation. It ordinarily is feasible for the subsidiary to prepare, for consolidation purposes, statements for a period that corresponds with or closely approaches the fiscal period of the parent. However, if the difference is not more than about three months, it usually is acceptable to use, for consolidation purposes, the subsidiary's statements for its fiscal period; when this is done, recognition shall be given by disclosure or otherwise to the effect of intervening events that materially affect the financial position or results of operations.

28.2.5. Disclosure

- Consolidated statements shall disclose the consolidation policy that is being followed. In most cases this can be made apparent by the headings or other information in the statements, but in other cases a footnote is required. An entity that is a member of a group that files a consolidated tax return shall disclose in its separately issued financial statements:
  a) The aggregate amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented.
  b) The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in (a) above are presented.

29.0 STORAGE, SECURITY, AND DESTRUCTION OF INFORMATION AND DOCUMENTS

The Finance Department will establish and maintain procedures to obtain, secure, store, restrict access to and destroy information and documents consistent with regulations of the Kingdom of Bahrain and the Personal Data Protection Law (PDPL).

For web-based credit/debit card payments, additional security measures must be followed. Physical security of servers, desktops, and software must be maintained. It must be ascertained that the vendor is providing adequate security measures and encryption of the data. There must be coordination with the IT department to ensure the operating system software, virus protection software, and application software are kept up to date with the latest patches and upgrades. The IT department and the Finance department are responsible for maintaining a log to validate that systems were reviewed quarterly.

All accounting documents must be securely stored in compliance with Bahraini law, relevant regulatory requirements, and accounting standards, adhering to the strictest of these guidelines. Should any accounting documents be retained beyond the period mandated by Bahraini law, the Finance Department is authorized to securely dispose of them, such as by using a paper shredder.

Passwords for accessing systems that contain sensitive or personal customer information must be changed routinely to minimize the chance of unauthorized access to information.

30.0 RELATED DOCUMENTS AND REFERENCES

Procurement Policy
Business Expense Policy
Corporate Bank Cards Policy
Delegation of Authority Policy
HR Policy

POLICY HISTORY

Date of Last Action	Action Taken/Changes	Authorizing Entity	Effective Date
30 May 2024	The document was approved by the BoD	BoD	1 June 2024