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1  **Introduction**

The purpose of this manual is to introduce fixed asset accounting concepts and to provide Palestinian local governmental units (LGU) with guidance establishing their own fixed asset systems.

The fixed asset system is a subsystem of the entity accounting system and can be subdivided further into a fixed asset accounting system and a fixed asset management system.

A fixed asset accounting system is a system of policies, procedures, and methods for recording and reporting monetary amounts associated with fixed asset transactions. A fixed asset management system is a system of methods, policies, and procedures which address the acquisition, use, control, protection, maintenance, and disposal of assets. Throughout this manual the two systems will be discussed together forming the entities Fixed Assets System.

The procedures for acquisition of fixed assets are covered through the general policies manual since they are part of the procurement process.

This manual covers the processes from delivery of fixed assets i.e. after acquisition – through decommissioning or demarkation of the fixed assets.

2  **Fixed Asset Definition**

The basic definition of a Fixed Asset is (belongings) as follows:

*“Fixed Assets are acquired assets of a long-term nature to be used by the LGU.”*

A fixed asset is defined as a financial resource meeting all of the following criteria:

1. It is tangible in nature.
2. It has an extended useful life, which the LGU may identify as more than one year.
3. It is not a repair part or supply item.
4. It has a value greater than the capitalization threshold established by the Council of the LGU or is considered to be an asset for which control (accountability) is desirable.

A fixed asset is defined in GAMAP 17 as a tangible item of property, plant or
A fixed asset is thus an asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic
benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year. Assets include land, buildings engineering works, machinery, equipment, vehicles, office furniture and equipment, but would exclude minor items that are generally regarded as expendable, even though their useful lives may extend beyond one year, e.g. pens, files and note pads. An asset held under a finance lease, shall be recognized as a fixed asset, as the municipality has control over such an asset even though it does not own the asset.

2.1 Major Asset Categories within LGUs

2.1.1 Infrastructure assets
Assets that are part of a network of similar assets and usually display the following characteristics:
   a. part of a system or network,
   b. specialized in nature and do not have alternative uses,
   c. immovable, and
   d. May be subject to constraints on disposal.

   Examples are roads, water and sewerage systems, transport terminals, electricity systems, etc.

2.1.2 Community assets
Community assets are any asset that contributes to the community’s well-being. Examples are parks, libraries and fire stations.

2.1.3 Heritage assets
Heritage Assets are culturally significant resources. Examples are works of art, historical buildings and statues.

2.1.4 Investment properties
Properties acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

2.1.5 Other assets
Assets utilised in normal operations. Examples are buildings, plant and equipment, motor vehicles and furniture and fittings.

2.2 Fixed (Capital) Assets Characteristics
It is a general policy to
identify expenditure as a fixed (capital) asset if it meets all of the following requirements (criteria):
   a. Is owned or used (Controlled) by the LGU
   b. Exceeds the Capitalization threshold (see 5.1 Below)
   c. Has an economic useful life of two or more years
d. Is intended to provide productive benefit to the LGU during its useful life. (Held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, etc)

e. The cost of the asset can be measured reliably

f. Acquired or constructed after 19??

All other acquisitions that don’t match the above criteria will be expensed. Assets that are not capitalized are expensed in the year of acquisition.

An LGU may wish to identify specific assets solely for control purposes. These "controlled" or "critical nature" assets would include assets that are sensitive, portable, or attractive for personal use/gain and/or even theft. Examples might be calculators, tape players, telephones, and audio-visual equipment.

Items meeting the fixed asset criteria are classified by major categories such as land, buildings, improvements other than buildings, furniture and fixtures, machinery and equipment and construction in progress. Other categories may be identified and reported by the LGU if considered significant.

### 3 Fixed Asset System Purpose

The purpose of the Fixed Assets System is:

#### 3.1 Financial Statement Information

The financial accounting system once implemented requires the recording of fixed assets in order for the unit of LGU to be in compliance with Generally Accepted Government Accounting Principle in Palestine (GAGAPP). Accordingly a primary objective of the Fixed Asset System is the preparation of General purpose Financial Statement in accordance with GAGAPP and meet the various requirement for correct and complete presentation.

#### 3.2 Control and Accountability

The purpose of the fixed asset system is 1) to gather and maintain information needed for the preparation of financial statements, and 2) to provide control and accountability over fixed assets. The system permits loss, theft, or damage to property to be identified by a comparison of the assets on hand and their present condition to the information found in the fixed asset records (information regarding the location, responsible party, and condition of public property).

#### 3.3 Policies in this Manual are minimum standards
The policies and procedures in this Manual are the minimum requirements for fixed assets that LGUs must meet. An LGU may maintain its fixed asset system in greater detail, or use additional supporting documentation, as long as the LGU meets the required minimum standards.
4 Adoption and Enforcement

The Fixed Asset System will be established and enforced by the LGU council after it is issued by the Ministry of Local Government (MoLG). MoLG will regulate the implementation of this policy.

5 Capitalization and Valuation

“Capitalization” is the recognition of expenditure as an Asset in the Financial Asset Register

5.1 Capitalization Policy & Criteria

A capitalization policy is a policy set by each municipality to establish a threshold(s) for WHEN to call an item a fixed asset. Different monetary (NIS) amounts may be established in the policy for different classes of fixed assets. Establishing appropriate capitalization thresholds for fixed assets is to be determined by the LGU using reasonable and consistent rationale. GASB concedes that different thresholds may be appropriate for different types of fixed assets. For example, the capitalization threshold for infrastructure assets would probably be higher than the threshold used for vehicles or office equipment.

The proposed capitalization threshold(s) is as follows:

a. All land, building; infrastructure shall be capitalized regardless of cost
b. All other fixed (capital) assets with a unit cost (including ancillary costs) of NIS 2,000 or greater or group of assets with a total cost of NIS 2,000 or greater, unless otherwise noted.

c. Asset additions, enhancement, repair, replacement, or expansion expenditures that enhance or extend the useful life of the asset and which is equal to or greater than 10% of the asset cost or fair value. OR
d. Other amount as the municipality may from time to time determine on the recommendation of the MDF or MoLG.

A higher capitalization threshold results in more expenses being absorbed (expensed) in the current year.
Projects (Construction) in Progress costs shall be closed out and capitalized into the appropriate asset classification when a project is substantially complete, accepted, and placed into service.
Capital items in most cases are new or replacement items with long lives. Expense items
are generally those which are used up in a short time (less than two years) or are expenditures which maintain an existing asset in good condition, but do not improve it from its original condition. Low-value capital items (below NIS 2,000) are arbitrarily expensed to reduce the bookkeeping costs of tracking and depreciating them.

5.1.1 **Assets not capitalized**

*Heritage Assets (Works of Art and Historical Treasures)*

Except as discussed in this paragraph, governments should capitalize works of art, historical treasures, and similar assets at their historical cost of fair value at date of donation (estimated if necessary) whether they are held as individual items or in a collection.

Art collections, library reserve collections, and museum and historical collections, that are considered inexhaustible in that their value does not diminish over time, are not required to be capitalized if all of the following conditions are met: (LGUs are NOT required to capitalize a collection whether donated or purchased that meets ALL of the following conditions:

1. The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
2. The collection is protected, kept unencumbered, cared for, and preserved.
3. The collection is subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for the collections.
4. LGUs must be able to provide descriptions of the collections and the reasons the collections are not capitalized.

LGUs meeting these conditions have the option of capitalizing their collections. Library resources are capitalized and may be carried on the LGU’s property records as a single item.

*Animals Zoo*

Zoo animals should be considered to be capital assets because they have a useful life of two years or more. However, successful breeding colonies of zoo animals do not need to be capitalized if the exception for collections as outlined for works of art and historical treasures is met.

5.1.2 **Individual Item vs. Group Costing (Capitalization)**

Fixed asset items may be capitalized in the following ways.

5.1.2.1 **Capitalized - Individual Control**
Those items which can be identified by manufacturer, model and serial number, and, as such, are identifiable from other like items should be listed individually. Generally, examples of this classification include business machines, major machinery and equipment, audio visual equipment, communication equipment, etc.

5.1.2.2 **Capitalized - Group Control**

Those items which (a) are homogeneous and not individually identifiable; (b) may or may not have a unit cost meeting the threshold level for capitalized assets but the practice is to purchase in groups and capitalize the total group cost; and, (c) will be maintained together or in the same general area, should be listed by homogeneous grouping e.g. as chairs in a hall.

For purchases of group assets, the policy is to identify expenditure as a unitary “system” whenever the components, taken together, may reasonably be understood to work as a single unit. For example, if a purchase order is written for a computer, monitor, keyboard and software, it is understood that this is a purchase of a computer “system”. If these components, purchased together, cost NIS 2,000 or more (including sales tax and shipping costs), then the expenditure is considered a single purchase of a computer system and is capitalized as a unit.

Bulk purchases of like fixed assets with unit costs of less than NIS 2,000 may be capitalized as a group.

For purchases in volume of capital items with unit value less than NIS 2,000 and if the aggregate total of the item exceeds NIS 2,000, then the group of items may be capitalized providing that the other tests for capitalization are met (i.e.; they must be owned, have an economic useful life of two or more years, and are intended to provide productive benefit to the LGU). For example, if one filing cabinet is purchased for NIS 1000, the item will be expensed; but if three NIS 1000 cabinets are purchased together, they may be capitalized since the aggregate cost is NIS 3,000. This policy is subject to further interpretation depending on the facts in each case. For example, the purchase of fifty NIS 100 wastebaskets would not be considered a capital purchase. In most situations, it is the intention of this policy to capitalize aggregate purchases (NIS 2,000 or greater) of furniture, fixtures and equipment (including computer software) where unit values are at least in the range of NIS 500 to NIS 2,000. Items valued at less than NIS 500 are generally treated as consumable supplies and expensed even though their useful lives may exceed two years. The reason for this policy is to reduce the bookkeeping and tracking expense for low valued capital expenditures. The Finance Department will interpret policy in those cases where differences of interpretation are otherwise unresolved.
Many capital assets, particularly complex network systems such as those for water and sewage treatment, consist of a number of components. For example, a water system includes water mains, distribution lines, reservoirs, pumping stations, filtration and treatment plants and service connections. Local government Unit has the option of accounting for such systems as a single asset or to treat each component as an individual asset. Whether a local government decides to record and account for each component as a separate asset will be determined by the usefulness of the resulting information to the local government and the cost versus the benefit of collecting and maintaining it. A component can comprise assets of similar useful lives and consumption patterns. For example, it may be appropriate to group the pumps related to a certain treatment facility

5.2 Initial Capitalization of Fixed Assets

Once the valuation of fixed assets is done the value assigned on the best estimate of cost and shall constitute the opening balance for fixed assets of the LGU. For initial valuation refer to the Fixed Asset Valuation Methodology Manual.

5.3 Valuation of Fixed assets

Land

Valuations provided by an independent valuer (s) may be the most appropriate and simplistic method of obtaining most types of land values. Using the concept of current cost land will be valued at market value.

Land Improvements

Anything done to land to improve its utility, service potential or make it ready for an identified use that has a limited useful life should be included in Land Improvements. The valuation basis most appropriate to land improvements will be replacement cost. Land improvements when considered to have an unlimited life shall be valued as part of the land, rather than as a separate component as the two items may be difficult to separate.

Building & Building Improvements

For building structures, determination of current cost will generally be established by
engineers. Licensed valuer(s) may also be engaged to provide market valuations for comparison with written down current replacement costs established by engineers for larger, more significant building structures. Judgment will be important in these circumstances as to which valuation should be applied. As a general rule, the lower of the two valuations should be used. It will be essential to review both valuations to ensure they are consistent in the assumptions they make. Second valuations should only be obtained where doubt exists as to some aspects of the value of the asset. It is important to note that for amounts to be recognised in financial statements they must be reliably measured.

**Infrastructure**

When determining current cost, current replacement cost is likely to be the most appropriate basis. Where practicable, unit replacement rates should be applied to the physical quantities or measurements of each component of the asset for determination of current replacement cost. Significant infrastructure assets should be valued as individual items, systems, sub-systems or networks.

**Machinery, Equipment & Vehicles**

These assets are best valued using the original cost when applicable & need not to be revalued as they are generally held for a relatively short period of time (3 to 7 years).

But when original cost in not applicable, current replacement cost is likely to be the most appropriate basis to value these assets.
Heritage Assets

For unique assets such as works of art, councils may wish to record at acquisition cost and revalue at market value at the date when revaluation of that class of asset arises.

5.4 Revaluation

Revaluation of fixed assets is required by GAGAPP. Revaluation will be conducted as often as practical by LGUs or as indicated by regulation. This manual proposes revaluation every 5 years for land, buildings & infrastructure assets. Other assets of operating nature such as plant and equipment, office equipment and furniture & fittings may be revalued if the council of the LGU considers it appropriate, however under normal circumstances these assets need not be revalued due to their fast turnover.

*For various reasons, some LGU assets may have a reduction in productive benefit not accounted for by normal depreciation. Such assets (if not fully depreciated) shall be removed from LGU asset register or reduced in value, and written off to expense, to the extent that future benefit to the LGU has been reduced.*

The cost of a fixed asset may undergo changes subsequent to its acquisition or construction on account of exchange fluctuations, price adjustments, and changes in duties or similar factors. Asset revaluation each 5 years should be done.

The asset register is to be maintained using the historical data “original cost” for regulatory purpose. The valuation report will be used as evidence to the general journal entry to update the value of assets in the general ledger and financial statement.

**Note:** The financial statement will reflect the new revalued amounts. Historical data may be present as footnote to the financial statement as Performa financial.

5.5 Controlled Assets

During the initial fixed asset identification/data gathering, controlled assets must be identified and recorded, but, since they will not be reported as fixed assets on the financial statements, original or estimated historical cost figures need not be identified or calculated.

Small and attractive (sensitive) assets

The recording and reporting of capital assets for financial reporting purposes is different than management’s responsibility to safeguard fixed assets. The LGU may want to maintain Inventory control over fixed assets that do not meet the capitalization
thresholds but are sensitive in nature.
Each LGU should identify those assets that are particularly at risk or vulnerable to loss. Assets so identified that fall below the LGU’s capitalization policy are considered small and attractive (sensitive) assets. Each LGU should develop written internal policies for managing small and attractive (sensitive) assets.

The following assets with unit costs of NIS 1000 or more are examples of small and attractive assets:

  a. Communications Equipment, Public Safety: Audio and Video
  b. Optical Devices, Telescopes, Infrared Viewers, and Rangefinders
  c. Cameras and Photographic Projection Equipment
  d. Microcomputer Systems, Laptop and Notebook Computers
  e. Other IT Accessorial Equipment and Components (Scanners, Data Displays, etc.)
  f. Record Players, Radios, Television Sets, Tape Recorders,
  g. VCRs, and Video Cameras, Home Type

  a- Sensitive Controlled assets:  Assets with a value less than the Capitalization Threshold but with important nature. These assets to be recorded (registered) in the asset register and their value will not be reflected in the financial statement. This means that their value is expensed. (Examples might be calculators, tape players, telephones, and audio-visual equipment.)

  b- Insensitive Controlled assets:  Assets with a value less than the Capitalization Threshold but with no important nature. The value of these assets to be expensed and the assets are not registered in the FA register.

These sensitive items may be tracked through the use of alternative listings. These listings may be much simpler in design than a standard capital asset listing since it would be focused on description and location instead of cost, useful life or depreciation expense
6  Accounting for Fixed Assets

The appropriate accounting treatment for the acquisition of a fixed asset is governed by the fund type from which the fixed asset was purchased and the ultimate use of the asset.

6.1  Fund Categories
There are three categories of funds employed in governmental accounting which are Governmental, Proprietary and Fiduciary funds.

6.1.1  Governmental Funds
Often called "source and disposition" funds, governmental funds are those funds through which most governmental functions typically are financed.

A government’s expendable financial resources and related liabilities, except those accounted for in proprietary funds, are accounted for through governmental funds. The four governmental fund types are: general, special revenue, capital projects and debt service
6.2.1 **Proprietary Funds**

Sometimes called "commercial-type" funds, proprietary funds are used to account for a government’s ongoing organizations and activities that are similar to those found in the private sector. All assets, liabilities, equities, revenues, expenses and transfers relating to the government’s business activities are accounted for through proprietary funds.

Proprietary fund are of two types: enterprise and internal service funds.

- **Enterprise Funds** account for operations that are financed and operated in a manner similar to private business enterprises, i.e., where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed through user charges.

- **Internal Service Funds** account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis.

6.1.3 **Fiduciary Funds**

Fiduciary Funds are of two types, trust funds, and agency funds. They are used to account for assets held by governmental unit in a trustee capacity and/or as an agent for individuals, private organizations, other governmental units, or other funds.

6.2 **Fixed Asset Categories**

Fixed assets may be classified in three categories: general government fixed assets, proprietary fund fixed assets and general infrastructure, depending on whether the asset is associated with a governmental or proprietary fund type operation.

6.2.1 **General Fixed Assets**

Fixed assets associated with governmental functions are known as general fixed assets. General fixed assets are not included in the balance sheet of governmental funds, but are reported at historical cost in a separate, self-balancing account segment called the General Fixed Assets. The cost of general fixed assets is summarized in the General Fixed Assets Segment by categories such as Land, Buildings, Machinery and Equipment, and Construction in Progress. The source of the money used to acquire general fixed assets is recorded in an account known as "Investment in General Fixed Assets". Sources may include individual funds, or state grants, taxes, debt proceeds, etc. Source disclosure for general fixed assets is only required if a comprehensive financial statements is prepared. If the governmental entity is unable to identify sources from prior years, source disclosure may begin with the year for which the statements are prepared.
Investment property: mostly these are commercial assets that are carried by governmental funds to be used either for sale or for commercial use lease etc.

Governmental assets those assets are used in the operation of the government and are classified as follows:

- Land
- Buildings
- Furniture & fixture
- Land improvements (Improvement other than buildings)
- Equipment and vehicles
- General infra structure
- Construction in progress

6.2.2 Proprietary Fund Fixed Assets

Fixed assets utilized in proprietary (Enterprise and Internal Service) fund activities or in trust funds are accounted for in the appropriate fund i.e. in the fund balance sheet, and are referred to as fund fixed assets. Enterprise fund fixed assets are capitalized (recorded) in the fund because the fixed assets are used in the production of the goods or services provided and sold. In order to determine profit or loss, the expense of using these assets (depreciation) must be included as an operating cost.

Internal Service fund fixed assets are recorded in the fund accounts for similar reasons. These assets are also directly related to fund operations, as in the case with enterprise fund fixed assets. Depreciation must be recorded to determine fund expenses, charges to departments, and changes in fund equity.

The identification of the source of fixed assets associated with an enterprise or internal service fund is required in order for the entity to be able to properly prepare financial statements in accordance with GAGAPP. Sources may include grants, special assessments, property taxed, contributions from other funds or developers, and purchase or construction by the enterprise or internal service fund itself.

Fixed assets associated with trust funds are also accounted for in those funds. This requirement assists in assuring compliance with the terms of the trust instrument, provides a deterrent to mismanagement of trust assets, and facilitates accounting for depreciation where the trust principal must be maintained intact.
Commercial like activity assets (those assets are carried by the enterprise and internal service funds) are classified as follows:

- Land
- Building
- Property plant
- Network (those are infrastructure assets such as electric networks, water networks etc.)

### 6.2.3 Infrastructure

According to the GAGAPP, reporting public domain or 'infrastructure' fixed assets - roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets that are immovable and of value only to the LGU - is optional, therefore an early determination of the treatment of infrastructure fixed assets needs to be made by the council of the LGU. Those fixed assets belonging to an enterprise, internal service or trust fund must be recorded and reported within the fund, and this is not optional.

In accordance with the Governmental Accounting Standards Board Statement Number 34, acquisitions of capital assets defined as infrastructure, which meet the state’s capitalization policy, are to be capitalized. Because the two requirements in paragraph 23 & 24 at GASB 34 are not met by LGUs in the Palestinian territories All infrastructure assets are required to be depreciated over their useful lives.

As an example, if the governmental entity had a sewer enterprise fund, then the underground sewer lines are to be considered fund fixed assets and must be identified and reported. If an entity does not have a sewer fund, then the reporting would be optional. Once the determination whether or not to report infrastructure has been made, the specific asset classes to be recorded and reported can be determined.

### 6.2.4 Leased Assets

A review of each lease is necessary to determine whether the lease should be classified as an operating lease or a capital lease. The criteria used to make this distinction, is whether the benefits and risks of ownership are transferred from the lessor to the lessee.

An asset held under a finance lease, shall be recognised as a fixed asset, as the municipality has control over such an asset even though it does not own the asset.

The purpose of the criteria is to establish the substance of the transaction and determine whether the lease is merely an extended rental agreement or actually an instalment
purchase in the form of a capital lease. If a lease is classified as a capital lease, the asset and a corresponding liability for the lease payments will be reported on the financial statements of the lessee. A further discussion of leases is beyond the scope of this manual.

7  Recognition of Fixed Assets

Fixed assets will be reported at cost or, if the cost is not practicably determinable, at estimated cost. Refer to Fixed Asset Valuation Methodology Manual.

Donated fixed asset shall be recorded at their estimated fair value at the time received. Cost is defined as the cash price, or its equivalent, plus all other costs necessary to place the asset in its intended location and condition for use. If fair value at the time received is not feasible, donated fixed assets should be reported at the fair value at the valuation date minus Accumulated depreciation from the year of receiving the asset. Refer to Fixed Asset Valuation Methodology.

7.1  Sources of Cost Data

Sources of acquisition cost include: vendor invoices, vouchers, cancelled checks, check copies, check registers, expenditure journals, construction contracts, purchase contracts, contract payment records, real estate closing documents, purchase requisitions, purchase orders, general ledger accounts, inventory cards, LGU council minutes, maintenance records, annual and capital budgets, appropriation documents, insurance values, price lists, certificates of title, and, for land and buildings.

Expenditure vouchers, real estate closing documents, construction contracts, and cancelled checks are the most reliable cost sources. LGU council minutes and appropriation and budget documents are good sources of data, particularly for land, buildings, and other costly assets. Adjustments must be made for amounts budgeted but not spent. This data should be supported by other documents, such as vouchers.

7.2  Existing Cost

There are many acceptable direct and indirect costing methods for property. Initial costs of fixed assets are usually ascertainable from contracts, cancelled checks and other transaction documents at the time of acquisition or construction, called direct costing. However, governmental units are sometimes faced with the task of establishing fixed asset records after many years of operation without such records, therefore being necessary to estimate the cost of such assets.

When it is necessary to estimate cost data, indirect costing methods must be used. Two indirect costing methods are the standard costing method and the normal costing method. The standard costing method uses an average of original costs of similar assets
that were acquired and installed at the time the asset in question was acquired. Such information may come from catalogues, price lists, consultants, or trade publications. The normal costing method first determines the cost to reproduce the asset at current prices then using published indices, indexes the reproduction cost back to the acquisition date. The extent to which fixed asset costs have been estimated, and the methods of estimation, should be identified and maintained as part of the fixed asset records, and will be disclosed in the notes to financial statements prepared using generally accepted accounting principles.

Estimates must have some reasonable authoritative basis. Merely guessing may result in a qualified auditor’s opinion, for this purpose of existing costs.

7.3 **Cost of Land**

Items that are included as parts of acquisition cost for land are:

- Purchase price,
- Professional & legal fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments)
- Site preparation, including (Clearing land for use including removal, relocation or reconstruction of property of others (railroad, telephone, power lines), Land excavation, fill, grading, drainage & Demolishing or removing prior structures)
- Accrued and unpaid taxes at the date of the acquisition

In addition, if an improvement is permanent in nature, such as landscaping, then the item is properly chargeable to the land account. Improvements with limited lives, such as driveways, walks, fences, and parking lots, are best recorded separately as improvements other than building so they can be depreciated (expensed) over their estimated lives.

7.4 **Cost of Buildings**

The cost of buildings should include all expenditures related directly to their acquisition or construction. These costs include:

(1) Purchase price,
(2) direct materials, direct labour and overhead (indirect) costs incurred during construction,
(3) Fees, such as attorneys, architects and building permits, and
(4) Interest charges incurred during construction. As well as capitalization of material interest charges incurred when constructing a fixed asset or preparing it for its intended use.

Generally, governments contract to have their buildings constructed. All costs incurred,
from excavation to completion of the buildings, are generally considered part of the building cost. The local government accountant may prove to be one of the most complete and least expensive sources of information for land and building costs.

7.5 Cost of Machinery and Equipment

The cost of machinery and equipment includes the purchase price, freight and handling charges, insurance on the equipment while in transit, cost of special foundations if required, assembling and installation costs, and costs of conduction trial runs. Costs thus include all expenditures incurred in acquiring the machinery or equipment and preparing it for use, plus the market value of any trade-ins or exchanges.

7.6 Demolition Costs

The cost of demolishing an asset may be categorized as capital or as expense, depending on the facts. If an asset is demolished to clear the site for a new asset to be built in the immediate future, then the expenditure is capitalized as part of the cost of the new asset. If an asset is demolished because it is old and/or useless (and may represent a hazard, nuisance or liability because of its age and condition) and there is no intention to construct or erect a specific new asset on the site of the demolished asset, then policy requires that the demolition is categorized as expense. Exception: If the cleared area itself becomes a new asset and generates new productive benefit to the LGU (Example: new yard space utilized by a tenant), then the demolition expenditure shall be capitalized as a cost of the new asset. If, however, the cleared area does not generate new productive benefit, then the demolition is categorized as expense.

7.7 Environmental Cleanup Costs

1. Environmental clean-up and remediation costs normally are operating expenses, except when the expenditure is required as part of the construction or improvement of a specific asset (and is an identified item in the budget cost of construction or improvement).
2. When construction or improvement of an asset reveals environmental contamination that requires removal, then the cost of removing the contaminants, including consulting fees, laboratory testing, environmental reporting, etc., shall be part of the capitalized construction or improvement costs.
3. Environmental clean-up costs are not generally considered an improvement to land, and normally are considered to be operating costs. Exception: Expenditures for environmental clean-up when performed in conjunction
with a land purchase or sale, and when recognized as a requirement for the future beneficial use of the land by the purchaser, then the clean-up expenditures are part of the cost of the land purchased or sold.

4. Environmental Studies and EIRs: Studies of vegetation and wildlife which are required to understand the environmental impact of construction and improvement projects are part of the capitalized cost of the asset. Environmental Impact Reports performed in conjunction with the construction and improvement of LGU assets are capital costs.

7.8 Studies, Surveys, Maps, Reports, Permits, Consultant/Architect Fees

1. Studies, surveys, maps, reports, permits, consultant and architectural fees, and similar information and planning costs which are necessary for the purchase or construction of specific LGU-owned assets are considered part of the cost of the asset; these costs are deemed to be capital expenditures.

2. Studies, surveys, maps, etc., which do not result in anticipated capital purchase or construction shall be removed from LGU assets (written off to expense) in the accounting period when the facts become known.

3. Feasibility studies and other preliminary work for capital improvement projects which are proposed for a future time shall be periodically reviewed, and a portion or all of the costs may be written off to expense depending on the current assessment of their continuing value to the LGU.

4. Expenditures for stand-alone studies which are not performed as part of the planning for specific LGU capital improvement projects are considered to be operating expenses, even though performed for a class of assets or for a general understanding of capital work.

5. Studies for capital projects that are not LGU-owned are expensed.

6. Mapping programs conducted for the purpose of identifying LGU assets for maintaining up-to-date maps of LGU property have an uncertain future value and useful life, and consequently are considered to be operating expenditures; except for those items (such as Computer Software) which would normally be considered capital expenditures.
7.9 **Outside Legal Costs**

Outside legal costs are capitalized if they are incurred in direct connection with the acquisition or construction of a capital asset, or if they are incurred as a result of direct action which impedes (interrupts) the process of acquisition or construction of a capital asset.

7.10 **Capitalized Interest**

The cost of constructed assets also includes interest incurred on borrowed construction funds during the construction period. The LGU issues work orders to accumulate all the costs of a project into an account called (project in progress).

7.11 **Spare parts**

Spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

7.12 **Special Cost Considerations**

Special cost considerations arise when dealing with group purchases, trade-ins, gifts, cash discounts and purchases on deferred payment plans:

7.12.1 **Group Purchases (Lump Sum Allocation)**

If several dissimilar assets are purchased for a lump sum, the total amount paid should be allocated to each individual asset on the basis of its fair market value (FMV). This is accomplished by use of the equation:

\[
\text{ASSET Y} = (\text{TOTAL COST OF ASSETS}) \times (\text{TOTAL FMV/FMV OF Y})
\]

7.12.2 **Trade-ins**

The cost of the asset acquired when payment includes both cash and a trade-in is the sum of the cash paid plus the fair market value of the asset traded-in. If the fair market value of the asset being traded-in is not readily determinable, cost may be recorded as the cash paid plus the book value (cost minus accumulated depreciation) of the asset traded-in, or the revalued amount as described in the Fixed Asset
7.12.3 **Gifts & Donated Assets**

Assets acquired by gift or donation (acquired at no cost, or for a nominal cost) should be recorded on the basis of their estimated fair market value at the time of donation. If
market value information is unavailable after a search of documents, capital appropriations, donor records, etc., an estimate of the cost using current replacement costs discounted by appropriate price indices is allowed.

If the Donated assets are owned by the PNA and LGU is using these assets *The PNA is the owner who provides these fixed assets to the LGUs, by agreement, for use*). This agreement should include making the LGU responsible for all reporting requirements for those fixed assets to be capitalized.

Donations or Gifts (Where an item of property plant and equipment is acquired at no cost, or for a nominal cost), will be included in the fixed asset register if the fair market value is greater than the capitalization (recognition) threshold.

### 7.12.4 Cash Discounts

Assets should be recorded net of any quantity or trade discounts received. The asset is recorded at a cost equal to the amount of cash paid, not the gross amount of the invoice.

### 7.12.5 Purchase of Deferred Payment Plan

Assets purchased on long-term credit contracts should be recorded at the present value of the payments to be made - the cash equivalent price of the asset. An asset, therefore, that requires five annual payments of NIS 1,000 should not be recorded originally at NIS 5,000. The cash equivalent price (present value) would be an amount less than NIS 5,000 because of the time value of the money involved. This value of money over time is represented by the interest rate.

### 7.12.6 Sources of Fund Fixed Assets

If an entity wishes to prepare financial statements in accordance with GAGAPP, it is essential to identify the source of proprietary fund fixed assets. Sources may include taxes, contributions from other funds, debt proceeds, donations from developers or grants, and revenue generated by the operation of the proprietary fund itself.

### 7.12.7 Value added tax (VAT)

The value of the fixed asset acquire should be recognized net of VAT.

### 7.12.8 Transfer of Capital Assets between LGUs
If a capital asset is transferred between two LGUs and there is no exchange of cash, then the asset and related accumulated depreciation should be removed from the sending LGU books and the identical amounts should be added to the receiving LGU books.
For example a server valued at NIS 27,500, with a useful life of 3 years and depreciated for one year using the start-year convention is being transferred from LGU 1 to LGU 2.

8  Cost Subsequent to Acquisition

After fixed assets are acquired and made ready for use, additional costs are incurred that range from ordinary repair costs to significant additions. Accountants for the most part have adopted the position that costs incurred to achieve greater future benefits should be capitalized, whereas expenditures that simply maintain a given level of services should be expensed. In addition, most of the expenditures below the capitalization threshold are not capitalized.

The distinction between a capital expenditure and an expense is not always quickly determinable. Generally, the major types of expenditures incurred relative to existing assets are:

a. Additions - Increase or extension of existing assets.

b. Improvements and Replacements - Substitution of an improved asset for an existing one.

c. Repairs - Expenditures that maintain assets in condition for operation.

Expenditures on capital assets which are incurred after their original acquisition are defined and recorded as follows:

8.1  Additions

Any additions to assets are to be capitalized because a new asset has been created that increases the ability to provide service.

Additions are new and separate units, or extensions of existing units, and are considered capital assets. A test of significance should be applied (see fixed asset Methodology).

For example, modular equipment added subsequent to original equipment construction of a larger building or equipment unit which may be put together to form larger units costing more than the prescribed limits will be charged to capital assets even though the cost of individual items is less than such units.
As an example accounting for changes related to the existing asset must also be considered.
8.2 Improvements and Replacements

An improvement is the substitution of a better asset or (part of asset) for the one currently used, while a replacement is the substitution of a similar asset or (part of asset) for the one being used.

Sometimes it is difficult to differentiate improvements and replacements from normal repairs. If the expenditure increased the future service potential of the asset, it should be capitalized. If the expenditure maintains the existing level of service, it should be expensed as a normal repair. A capitalization threshold should be applied (see fixed asset Methodology).

To capitalize expenditure as an improvement or replacement, record the new asset being acquired and remove the old asset from the fixed asset records. Refer to Annex V.

Betterments consist of the replacement of a unit of an existing asset by an improved or superior unit, usually resulting in a more productive, efficient or longer-lived property. Significant betterments are considered capital assets and are added to the value of the property improved with a new useful life estimated. Replacement of a part of an existing asset by another of like quality is not betterment (will be expensed), even though the useful life of the asset is maintained or extended.

If betterment exists (capitalized) the amount of the betterment is measured by the difference between the cost of the new asset and that of the asset replaced. In cases where the original cost of a replaced asset is not readily available, the best estimate of such cost may be used.

Expenditures on existing assets in which substantial portions, or principal parts, of the asset are replaced with new or rehabilitated, longer-lived components will be considered as extending the useful life of the asset and shall be deemed to be capital expenditures. These expenditures are usually termed “major maintenance” or “overhaul”. Example: overlay of roadways, overhaul of engines .........

For buildings, improvements other than buildings, and equipment, capitalize the cost of outlays that replace a part of the fixed asset when the cost of the replacement is at least 10 percent of the value of the asset (original cost or replacement cost)

Rehabilitation, Restoration, Upgrading are descriptive terms used to explain the nature of a Capital Expenditure. They are used in conjunction with the basic terminology: Improvement, Replacement, and Major Maintenance. “Rehabilitation” and “Restoration” connote a reconditioning of an existing asset by replacing major
worn-out components. Upgrade suggests that an old asset is being replaced with a newer or more efficient one, or that major maintenance expenditures will result in a significantly improved or longer lived asset.
8.3 **Maintenance and Repairs**

Ordinary repairs (Replacement of minor parts, lubrication, adjustments, cleaning and painting) are expenditures made to maintain assets in operating condition; these maintenance costs are not capitalized. If a major repair, such as an overhaul, occurs, several periods will benefit and the cost should be handles as an addition, improvement, or replacement, depending on the type of repair made.

“Renovation” and “Modernization” are additional terms generally mean asset improvements which are brighter, newer or more technologically advanced. (Not sub-standard, old fashioned or worn-out from hard use.)

8.3.1 **Catastrophic failure maintenance & repairs**

Catastrophic failure is major damage resulting from very infrequent natural occurrences such as large-magnitude earthquakes.

I. Expenditures for repairs of major damage resulting from catastrophic failure will normally be classified as capital expenditures since this type of work is usually considered to be replacement in whole or large part, thereby extending the life of the asset at least three years.

II. Minor damage resulting from catastrophic failure will normally be classified as expense work since expenditures for repairs normally only return the asset to its original condition, and do not extend the life of the asset. These expenditures for minor damage shall be shown as an extraordinary item on the income statement that is “below the line” (not in operations).
9 Depreciation and Depletion

9.1 Depreciation

The usefulness of most assets, other than land, declines over time and some type of write-down or write-off of cost is needed to indicate that the usefulness of an asset has declined. Depreciation is the term most often used to indicate that tangible assets have declined in service potential. Where natural resources, such as oil, natural gas, water and are involved, the term depletion is used.

Assets lose value over time; this loss of value is depreciation cost. The principal objective in accounting for depreciation is to charge each accounting period for the estimated loss in value of the depreciable assets incurred during that period.

Depreciation is described as the monetary reflection of the asset’s consumption during a financial year and shall be calculated over the useful life of an asset from the date that the asset becomes available for use, even if the asset is not yet employed in providing services.

a. The depreciable amount of a fixed asset should be allocated on a systematic basis over its useful life.
b. The depreciation method used should reflect the pattern in which economic benefits or potential service provisions are consumed by the LGU.
c. The depreciation charge for each period will be recognized as an expense.
d. The depreciation method will be straight line unless the LGU & MDF are convinced that another method is more appropriate.

9.2 Depreciation policy

A capital asset meeting the criteria will be reported and depreciated in the LGU financial statements with the exception of land which will be not depreciated and construction in progress which will not be depreciated until it is transferred upon completion to the appropriate capital asset category.

Depreciation of assets begins at the end of the fiscal year in which they are capitalized and placed in service. Depreciation to be calculated using the straight-line method of depreciation (equal amounts each year). If Applicable, assets are valued at historical cost (i.e.; the cost of the asset at the time of acquisition or construction).
The asset will be capitalized when purchased or completed, and accepted. However, if it is not placed into service immediately, depreciation should begin when the asset begins to lose value.
To calculate depreciation using the **straight-line method**:

Annual Depreciation = \[
\frac{\text{Asset Cost (Original or Replacement)} - \text{Salvage Value}}{\text{Asset Useful Life}}
\]

Non-depreciable capital assets include:

a. Land
b. Art collections, library reserve collections, and museum and historical collections that are inexhaustible
c. Construction in progress (will be only capitalized upon completion)

9.3 **Review of depreciation method**

The depreciation method applied should be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from certain fixed assets, the method should be changed to reflect the changed pattern.

When such a change in depreciation rates or methods is necessary, the effect must be recognised in the reporting period of the change and future periods. Depreciation recognised in prior reporting periods must not be changed.

9.4 **Recording Depreciation Expense**

All exhaustible capital assets are depreciated using the straight-line method, estimated salvage value (LGU option), and the estimated useful lives as determined by the LGU or obtained from the fixed asset methodology (Annex???)

LGUs have the option of depreciating each capital asset or depreciating by class of capital asset. LGUs also have the option of using an estimated salvage value when calculating depreciation.

LGUs are required to **record depreciation expense** on capital assets at least by the end of each fiscal year *a reduction in a local government's investment in capital assets*

9.5 **Depreciation of Fund Fixed Assets**

The following example describes depreciation of fund fixed assets.

An LGU purchased a backhoe to be used in water fund which is accounted for as an enterprise fund. The cost was NIS 100,000, its useful life is 10 years and its salvage value
is estimated at NIS 10,000, the depreciation rate is then 10% annually. The backhoe was purchased on January 1, 2006.
Calculation of the depreciation expense will be:
Depreciation Expense = (Cost - Salvage value) * Depreciation rate = (100,000 - 10,000) *10% = NIS 9,000

The net book value as per 31.12.2006 is then NIS 91,000. (NIS 100,000-NIS 9,000)

This is the straight line depreciation method, which means that the expense is the same for each year. Refer Annex X for depreciation rate schedule.

9.6 Depreciation of General Fixed Assets

When general fixed assets are depreciated, no depreciation expense is reported. Rather, a reduction in the "Investment in General Fixed Assets" account is recorded. Reporting depreciation for general fixed assets is not required but is permitted.

Refer Annex I Accounting for Fixed Assets.

9.7 Depletion of Natural Resources

The units of output method shall be used for natural resources. In the case of LGUs at the Palestinian Territories natural resources are mainly water resources and these resources are renewable which mad it almost impossible to estimate the total water quantity available from all water sources to be supplied over time (years). For this reason LGUs are encouraged to depreciate water resources using the straight-line depreciation method not the units of output method.

The units of output method could be used for Vehicles & Pumps.

Example:

The cost of a natural resource is calculated using the costs incurred in the development of that resource if developed by the LGU or sacrifice price (amount paid) when purchased.

Royalties paid are treated in the General Accounting Manual.

As the natural resource is set or entered into operation an estimate quantity of total output is calculated.

Depletion calculation is based on amount extracted annually.

Total Development cost of a Water Well is NIS 200,000
Estimated quantity is 1,000,000 m$^3$. 
In the first year 100,000 m³ were pumped
Depletion is calculated as follows:

\[
\text{Depletion per m}^3 = \frac{200,000}{1,000,000} = 0.20 \text{ NIS/m}^3
\]
Year depletion:
Depletion \(100,000 \times 0.2 = 20,000\) NIS

The entry to record depletion

Depletion expense  
Water well 20,000.00  
20,000.00

9.8 Depreciation of Fixed Assets associated with Natural Resources

Assets that are associated with Natural resource and their useful life is less than or equal to that of the natural resource or there is only for that natural resource and can not be used for any other purpose should be depreciated using the same method used for calculation of depreciation. Which is the straight-line method.

10 Derecognition, Demarcation and Disposition of Fixed Assets

As assets are old and their use is limited and cost of maintenance of the asset exceeds its value the governing board of LGU decides to remove the asset from use. The derecognition demarcation of the assets is the processes of removing the asset from fixed asset registry and removing the Tag from the asset. Assets demarked are held in surplus property and are sold at a public auction after giving ample time notice of the auction. Current Palestinian Laws with regard to disposal of public property should be complied with.

At the time of the disposal, depreciation expense for proprietary fund fixed assets should be calculated and recognized up to the end of the year of disposition. All amounts related to the disposed asset should be removed from the accounting records and gain and loss if any should be reported.

For General fixed asset the asset is removed from the records and investment in fixed assets is debited. The amount of money received is recorded as miscellaneous revenue in the general fund.

No derecognition, demarkation or disposition should occur without the prior approval of the LGU council.

LGU asset which no longer has productive benefit to the LGU, or work-in-progress which no longer is expected to have future benefit to the LGU, shall be removed from LGU assets register or from work-in progress (written off to expense) in the accounting period when the facts become known regarding its non-productive status.
Disposals of fixed assets may occur by sale, trade-in, destruction, loss or abandonment. Such disposals represent a reduction in a local government’s investment in fixed assets.

10.1 Lost or Stolen Asset

When suspected or known losses of fixed assets occur, LGUs should conduct a search for the missing property. If the missing property is not found:

a. Remove the lost or stolen property from the LGU’s asset Register and accounting records where applicable.
b. Maintain records for losses of fixed assets in accordance with approved LGU records retention schedules.

Accounting treatment on Disposal

An item of fixed assets should be eliminated from the balance sheet and the fixed asset register on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its disposal. Such disposals represent a reduction in a local government’s investment in tangible capital assets.

When a tangible capital asset is disposed of, the cost and accumulated depreciation are removed from the accounts. Any difference between net proceeds and the carrying amount of the asset is accounted for as a revenue or expense in the statement of operations. The value given for a trade-in is the net proceeds on disposal.

When a component of a complex network is replaced, the removal from service of the old asset is treated as a disposal. For example, if a section of a road is resurfaced, the cost and accumulated depreciation of the old pavement is removed from the accounts. The difference between the salvage value and the carrying amount, if any, is reported as revenue or expense.

11 Inventoring (The detail listing and physical count of Fixed Assets)

An initial inventory is the most time consuming and costly because of the large number of assets to be recorded, coded, tagged and valued. This will be done during the initial valuation carried out by the LGU. For further information on the initial valuation, please refer to the Fixed Asset Valuation Methodology Manual.

Reoccurring physical counts should be done either quarterly or semi-annually on sample...
bases as follows:

1. Compare a sample of fixed asset additions to the fixed asset register to make sure of proper recognition;
2. a) Compare a sample of fixed assets decommission to the fixed asset register to insure that the asset are removed from the register;
   b) Trace those assets to the surplice property list and perform physical inspection.
3. Select a sample of assets from Fixed Asset Register and perform physical inspection of the asset and its condition.
4. Select a sample of physical asset from the LGU and reconcile with the Fixed Asset Register.

Making the comparisons by themselves is not sufficient. Any differences should be followed up and appropriate action taken.

Controlled Fixed Assets should be included in the physical count and any differences should be followed up and appropriate action taken.

11.1 **Initial Inventory**

The Fixed Asset Valuation Methodology Manual and the initial valuation process should be the starting point for the first asset inventory. Revaluations will also be a source for reconciling actual physical assets to the Fixed Asset Register.

**Which assets to be recorded in the register**

The following assets must be carried on the property records of the LGU:

a. All assets meeting the LGU’s capitalization policy (refer to ……)
b. Assets with a unit cost less than the capitalization threshold but identified as small and attractive assets.
c. Art collections, library reserve collections, museum and historical collections that meet the criteria and which are not required to be capitalized, are required to be controlled.
11.2 Planning the physical count

Conduct physical count at least once every other fiscal year for all fixed assets except as noted below.

a. Due to the stationary nature of certain assets (such as land, infrastructure, buildings, improvements other than buildings, and leasehold improvements), performing a physical inventory every other fiscal year is not required.

b. Physical count for Controlled assets, inventories & supplies should be conducted in each department on or about December 31 of every year, in order to assure physical accountability and accounting control.

Procedures from the physical count must be established. Identification of the physical assets to be counted is necessary. For example supplies and spare parts should not be included. The inventory taking procedures of supply and spare parts are covered under the General Policies and Procedures of the LGU and are excluded from this manual. The report format for the physical count and the various forms used should be prepared during the planning stage. Schedule for the physical count should be put in place and adhered to. The inventory team should be selected and trained. Tags and telling sheets as well as the policies prepared and location identifiers should be prepared. The physical count should be done systematically.

11.3 Maintaining and updating the Fixed Asset Register

The results of the physical count will be used to update the Fixed Asset Register. Differences between actual and recorded assets should be reconciled. The report of the physical count should be reviewed by the council of the LGU and action as appropriate.

12 Coding

Fixed Assets should be identified by a unique code. This code could be numbering or alphanumeric. A sub-code should be used for major components of an asset.

The coding system is shown in Annex XI.

13 Tagging

Fixed assets are tagged as a means of positive identification, a form of asset location
control, a way to make inventories easier and quicker, and a common ground for identifying an asset. Tags should be selected and placed on the assets so that they are not easily removed or destroyed by asset use. Refer to Annex VIII.

13.1 **How capital assets should be tagged (marked)**

Permanently affix the identification information to the asset by using a standardized adhesive tag or inscribing the asset according to the following format:

a. PNA  
b. LGU NAME (or authorized abbreviation or LGU number),  
c. OPTIONAL BAR CODE, and  
d. ASSIGNED CONTROL NUMBER

Mark all capital assets upon receipt and acceptance to identify that the property belongs to the LGU. This identification should:

a. Facilitate accounting for the asset;  
b. Aid in its identification if the asset is lost or stolen;  
c. Discourage theft; and ultimately,  
d. Reduce the magnitude of the state's property losses.

Occasionally, the LGU will find it is impractical or impossible to mark some of its capital assets according to these standards. For example, where a capital asset:

a) Would lose significant historical or resale value (such as art collections or museum and historical collections);  
b) Would have its warranty negatively impacted by being permanently marked;  
c) Is stationary in nature and not susceptible to theft (such as land, infrastructure, buildings, improvements other than buildings, and leasehold improvements); or  
d) Has a unique permanent serial number that can be used for identification, security, and inventory control (such as vehicles).
In these cases, the identification is not required, and the LGU is to apply alternative procedures to inventory and identify such assets.

Leased assets (capital or operating) should only be permanently marked with the identification upon formal transfer of ownership to the LGU.

### 14 Grant Requirements related to Fixed Assets

Assets acquired or contracted to governmental grant fund should be adequately documented and supported for audit purposes. Donated property should be recorded at Fair Marked Value and must be identified. The identification should include in addition to the registry field, the grant number and the grantor. A physical count of these assets should be carried out every second year as a minimum.

Certain grants will require special information the Fixed Asset Register should provide such as maintenance schedule, special tagging etc.

### 15 General Infrastructure Fixed Assets

General infrastructure fixed assets differ from general fixed assets as such:

1) They are normally immovable;
2) They are valuable only to the LGU.

The reporting and accounting of general infrastructure fixed assets is optional under GAGAPP. Refer to annex III.
ANNEX I: Accounting for Fixed Assets
ACCOUNTING FOR FIXED ASSETS

**Enterprise and internal service funds**
These funds carry their own assets and liabilities accordingly the accounting for such assets is on the full accrual basis.
The funds should carry the following accounts.

**Balance sheet Accounts**
- Property plant and equipment
  - Land
  - Buildings
  - Buildings Improvements
  - Improvement other than buildings (net works wells etc)
  - Machinery and equipment
  - Vehicles
  - Furniture & fixtures
  - Heritage Assets
  - Construction in progress
- Accumulate depreciation Buildings
  - Accumulate depreciation Buildings
  - Accumulate depreciation Buildings Improvements
  - Accumulate depreciation Improvement other than buildings
  - Accumulate depreciation Machinery and equipment
  - Accumulate depreciation Vehicles
  - Accumulate depreciation Furniture & fixtures
- Restricted assets
  - Cash
  - Investments
  - Bond sinking fund
- Customer deposits (liability account)
- Minimum lease payments

**Revenues Expenses and changes in retained earnings**
- Interest expense
- Depreciation

**Acquisition entries**
<table>
<thead>
<tr>
<th>Description</th>
<th>xxx.xx</th>
<th>xxx.xx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Voucher payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Leased assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum lease Payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Depreciation Expense  xxx.xx
Accumulate depreciation  xxx.xx

**Lease payment**
Minimum lease payment  xxx.xx
Interest Expense  xxx.xx
Bank  xxx.xx

**Governmental Funds**

Those funds account for the general operations of the government. The focus of such funds is spending. In order to control these funds the budget of the LGU is done on the same biases used for accounting. Once the budget is approved the budget is integrated in the accounting records through an accounting entry. All fixed assets expenditures are normally appropriated under the caption of capital outlay within the various funds thus when an asset is purchased or acquired the fund records an expenditure. If capitalization occurs within the fund the expenditure zeros out and thus budget comparisons is not valid. To avoid such a problem we use a fund to account for the general fixed assets. The differentiation regarding the source of the asset is done through the credit side of this fund.

**The general fixed assets fund (account group)**
The following accounts are used in this fund:

- **Assets**
  - Land
  - Buildings
  - Improvements other than buildings
  - Furniture and fixtures
  - Equipment and vehicles
  - General infrastructure (optional)
  - Construction in progress
  - Accumulate depreciation

- **Fund balance**
  - Investment in general fixed assets-general revenue
- Investment in general fixed assets - special revenue
- Investment in general fixed assets - capital leases
- Investment in general fixed assets - capital projects
The accounting entries for fixed assets occur in both funds the purchasing fund as expenditure and the fixed asset fund to register the asset (flip flop Transactions). The sources of acquiring fixed assets are

1- Purchase

2- Denotations or grants

3- Construction
   a. Self construction
   b. Through contractors

The construction in progress account is used to accumulate the cost of long term capital projects. Once the project is completed the full cost is moved into its category and the capital project fund is closed through an equity transfer.

The following Example of entries is used in the fund

**Asset acquired by general fund**

*General fund entry*

Expenditure /sub/dep/asset  xxx.xx
Vouchers payable  xxx.xx

*Fixed assets Fund*

Equipment and vehicles/ truck  xxx.xx
Investment in general fixed assets-general revenue  xxx.xx

*Assets acquired by special revenue fund*

*Special revenue fund entry*

Expenditure /Sub/dep/truck  xxx.xx
Vouchers payable  xxx.xx

*Fixed assets Fund*

Equipment and vehicles/ truck  xxx.xx
Investment in general fixed assets- special revenue  xxx.xx

**Asset leased by general fund**

*General fund entry*

Expenditure /Sub/dep/truck  xxx.xx
Proceeds minimum lease payments  xxx.xx

*Fixed assets Fund*

Equipment and vehicles/ truck  xxx.xx
Investment in general fixed assets-capital leases  xxx.xx

**Assets acquired by capital projects fund**

The project is assumed to be 3 years

**Capital projects fund entries**

*Year I*
Construction expenditure building  xxx.xx
Contracts payable  xxx.xx
Fixed assets Fund  Year I
**Construction in progress Building**  
x.x.x.x
**Investment in fixed assets-capital projects**  
x.x.x.x

**Capital projects fund entries**

**Year 2**
- **Construction expenditure building**  
x.x.x.x
- **Contracts payable**  
x.x.x.x

**Fixed assets Fund**

**Year 2**
- **Construction in progress Building**  
x.x.x.x
- **Investment in fixed assets-capital projects**  
x.x.x.x

**Capital projects fund entries**

**Year 3**
- **Construction expenditure building**  
x.x.x.x
- **Contracts payable**  
x.x.x.x

**Fixed assets Fund**

**Year 3**
- **Construction in progress Building**  
x.x.x.x
- **Investment in fixed assets-capital projects**  
x.x.x.x

**Finally**

**Building**  
x.x.x.x
- **Construction in progress Building**  
x.x.x.x

**Depreciation**

In this fund no depreciation expense is recorded the depreciation is deducted from the investment account

- **Investment in fixed assets special revenue**  
x.x.x.x
- **Investment in fixed assets-capital projects**  
x.x.x.x
- **Investment in general fixed assets-capital leases**  
x.x.x.x
- **Investment in general fixed assets-general revenue**  
x.x.x.x

**Accumulate depreciation**  
x.x.x.x
ANNEX II:

Identification of relevant information in the Fixed Assets Register
IDENTIFICATION OF RELEVANT INFORMATION IN THE FIXED ASSETS REGISTER.

RELEVANT FIELDS OF INFORMATION AT ENTRY STAGE

The system *should* contain fields for:

- Amount
- Quantities
- Multi-currency & Multilingual.
- Category of asset
- Class of Asset
- Group of Asset
- Select GL-Accounts for Assets, Depreciation, Sale/Disposal & WIP directly through integration.
- Possibility to select start date for depreciation.
- Possibility for different depreciation schedules. (Monthly, Quarterly, Yearly)
- Integrated with the Chart of Accounts in the Accounting System.
- Integration to give the possibility to follow-up on regular running costs per Asset.
- Possibility of sub-assets to main asset.
- Asset number/ID
- Description of Asset
- Location
- Insurance & Warranty details, including period, cost, renewal date(s), agent
- Serial number (If applicable)
- Production Year.
- Supplier-details, ID, Name etc. integrated with Accounts Payable in the Accounting system.
- Field of activity.
- Project and donor identification (if needed)
- Work in Progress identification and later transfer to Fixed Assets register.
- Asset name
- Status of Asset (In / Not in Use etc.)
- Date of acquisition
- Start of depreciation
- Depreciation-rate of asset
- Physical location - linked to cost center/sub center(s) of asset.
- Minimum value of an asset.
- Possibility for User defined fields.
- Warranty details and expiry date(s).
Notes
FUNCTIONAL DESCRIPTION OF THE FIXED ASSETS SYSTEM

- Mandatory integration with the Accounting System.
- The system must be able to handle VAT according to the regulations and integrated with the Accounting System.
- The system shall handle linear depreciation method.
- In the case of financing an asset through borrowing, it would be preferable for the system to calculate the associated costs, with possibility for transferring the calculated cost to the general ledger, if applicable.
- Manual adjustments to expected lifetime including recalculation of depreciation costs and automatic transfer to the Accounting system.
- Manual adjustments to assets disposed including automatic transfer to the Accounting system.
- The system shall handle possibility for splitting an asset into sub-assets, and calculate depreciations by sub-assets.
- The system shall handle relocation(s) of an asset.
- The system should have integration or possibility of integration with GIS software.
- The system shall enable entering of new remaining values of an asset or of a group of assets.
- E-mail functionality for easy exchange of reports and other information.
- Registration fields above must be flexible in terms of Mandatory, Fixed and Optional input.
- The system must provide secure access rights for various user groups with flexible user rights. (Read, Write, Change and Delete.)
- The Supplier should state if this is a “Multi-company” version.
- Export/Import facilities.

QUERIES AND REPORTS

- The system shall provide reports relating to the organizational levels defined.
- The system shall provide a wide range of standard reports from detailed asset report to aggregated assets reports per Category, Classes and Groups. (Included but not limited to: Detailed Asset report, Journal Entries, Projections, Historical records, Asset additions, Asset Sales, Disposal & Transfer. Asset dispositions including gain/loss report. The System should allow user defined period of reporting.
- The system shall provide a depreciation report confirming calculations for all assets.
- The system shall allow for queries and ad-hoc reporting.
- The system shall provide projections/prognoses on future depreciation and calculated costs on a monthly basis.
- The system shall provide a report on remaining balances smaller than *(a parameter set number)* for manual handling according to policy.
- The system *shall* provide “asset counting” report at selected levels for External/Internal Audit check.
- Warning lists in terms of critical dates for Maintenance, Warranty and Insurance.
ANNEX III

ANNEX III: Infrastructure Fixed Assets Subsystem
**Reasons for capitalization of General Infrastructure**

The main reasons for an infrastructure fixed asset subsystem are:
1. To maintain a comprehensive fixed asset accounting and management system.
2. To analyze asset condition and then begin a preventive maintenance schedule.
3. To develop more accurate capital and operating budgets.
4. To develop debt management guidelines and then, if applicable, to develop an inclusive financing program.

In considering the first reason for an infrastructure system, begin by considering the alternative. If all fixed assets are not recorded, the financial statements would not reflect a significant use of financial resources. Also, present and future management is weakened because of an incomplete asset list. Comprehensive fixed asset accounting and management subsystems—with infrastructure included—are necessary so that citizens feel confident that their government managers, leaders, or administrators know what assets they have, the condition of those assets, the remaining lives of those assets, and the maintenance and repair schedules of those assets, so that the appropriating of funds for and the budgeting of projects necessary to replace those assets, and the financing of replacements for assets at the lowest cost, may take place.

In the past, only under rare circumstances did the public consider the fate of its public assets. Street lighting systems, and flood control systems are usually out of sight and out of mind. When infrastructures fail, bridges break or streets collapse, they become worthy of consideration.

The second reason for an infrastructure fixed asset system is to enable an up-to-date asset condition analysis and preventive maintenance schedule to be maintained. The analysis may include asset cost, replacement value, expected life, a comparison of the asset to legal, safety, or health standards, possible future maintenance or services, estimated time of such maintenance or service, and estimated cost of such service.

The preventive maintenance schedule may include the manufacturer’s suggested service schedule and requirements or an estimated schedule of internal and/or external maintenance work. Many variables should be considered in forming the preventive maintenance schedule. It is first necessary to determine the amount and sources of funding available for any project.

Next, maintenance and repair projects would have to be prioritized by considering such questions as: Which assets receive the most use? Which projects involve public health or safety (entity liability)? Which assets are in greatest disrepair: And, what would be the difference in costs of repairing the asset immediately compared to repairing the asset in the future? These are only a few of the questions that need to be asked in order to prioritize the maintenance schedule.

Another benefit of a maintenance schedule is that upon retirement of the schedule, it will become part of the maintenance historical records which can be used to make more accurate estimates as to the cost of a repair, the life of an asset, or the amount of use an
The asset will receive. The maintenance schedule then becomes one of the main tools used to determine capital and operating budgets, which is the third reason for an infrastructure fixed asset system. At this point, the relationship between and among the reports, schedules, and budgets become clear. The asset’s condition is analyzed and compared to standards. The analysis
determines whether it is more cost efficient to replace or repair the asset. The relationship between the annual capital budget and the annual operating budget is also very structured. A long-term capital budget (along the lines of a "wish-list") could be prepared encompassing infrastructure projects five, ten or more years in the future. Once annual financing is known, this long-term budget can be used to prepare the annual capital budget. The expansion or purchase of infrastructure fixed assets in the annual capital budget must then be carried into the operating budget to cover the costs of repairing or maintaining the new assets. A long-term operating budget may also be prepared using the asset analysis. The long-term operating budget gives the financial manager a view of future funding needs and allows the manager to plan for necessary special assessments or to apply for applicable grant funding.

The fourth reason for an infrastructure fixed asset system is to develop debt management guidelines and then, if applicable, to develop an inclusive financing program. Financing guidelines and programs begin with a thorough knowledge of financing possibilities, the local and state laws that pertain to those possibilities, and the entity’s goals and objectives.

Infrastructure debt management should include:
1. A detailed capital improvement program, including project phase costs and schedules.
2. A financial plan (long-term and short-term) to determine how much money is needed, when it is needed and possible sources of funding.
3. Evaluation policies for evaluating sources of funding for capital improvement projects.
4. Monitoring guidelines to keep abreast of current financial conditions and, if applicable, to obtain refinancing at a lower interest rate.

The capital improvement program must not be analyzed to determine if the projects can be divided into phases, each with cost and schedule information. With such an analysis, it is easy to form a long-term and short-term financial plan to determine whether long-term financing is necessary or if short-term financing (with normally lower interest rates) is possible.

To develop an infrastructure fixed asset system, an initial inventory is taken and a condition analysis is done at that time. The initial inventory is taken using the policies and procedures established by the entity for other fixed assets. Although under unusual circumstances it may be necessary to obtain the services of an engineer or use some of the new infrastructure analysis techniques and instruments such as void detectors, ground probing radar, or sonar systems, most of the time the entity can identify the assets and attach a value to them.

Also, by using historical records such as invoices for parts and materials, by reviewing past infrastructure construction and repair projects, and by examining scheduled construction and maintenance projects it is possible to evaluate current infrastructure condition. With the condition analysis, it is possible to prioritize maintenance, repair and replacement projects.
The prioritized schedule of projects is then used to develop capital and operating budgets. The budgets are then used in determining the best possible financing techniques.
ANNEX IV

ANNEX IV: General Procedures for Fixed Assets
PURPOSE AND ORGANISATION

The purpose of this Annex is to provide control and accountability over the fixed assets belonging to the LGU.

Due to various sizes of the local LGU’s, the Asset Management Officer(s) (AMO) which is part of the accounting department of the LGU shall have the over all responsibility for registering and accounting for the Fixed Assets within the LGU. The AMO can consist of a single part-time employee or a department with several staff members depending on volume and size of the LGU.

TARGET GROUP

The procedures presented in this document apply to all staff using property belonging to the LGU and in particular staff employed in Management, Administration, Procurement and Asset Management Group.

RESPONSIBILITIES

- AMO is responsible of recording and maintaining the Fixed Asset Register as well as physical counts.
- Head of Department is responsible for internal routines to safeguard and control Fixed Assets assigned to the department. In addition to that the head of the department will recommend to the LGU council disposal, transfer and trade-in.
ANNEX V: Procedure - Fixed Assets Acquisition, Improvement and Replacement
PROCEDURE - FIXED ASSETS ACQUISITION, IMPROVEMENTS AND REPLACEMENTS

- The LGU will normally acquire new assets according to approved capital outlay budget. The AMO – Asset Management Officer within the LGU will have the responsibility to register all Fixed Assets acquired. In addition the AMO will have the responsibility to identify (Tag) and update the Fixed Asset System.

The Procedure:

<table>
<thead>
<tr>
<th>MAIN TASKS</th>
<th>ACCOUNTING AND FINANCE PROCEDURES</th>
<th>AMO PROCEDURES &amp; DUTIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Procurement and Ordering</td>
<td>Ordering/Procurement of Assets will follow the local LGU regulations for budget and procurement.</td>
<td>Normally no direct involvement at this stage by the Asset Management Officer. (AMO)</td>
</tr>
<tr>
<td>2. Receipt of Goods</td>
<td>A goods-received note, to be signed upon receipt, is normally provided by the Supplier. An appointed representative (Stores) from the LGU will sign for the receipt. The receipt is enclosed to the Internal Stores requisition (Pre-numbered), Invoice and other related papers. (Example: Operations Manual, Warranty, Freight documents, Certificate of Origin)</td>
<td>Depending on the Organization and Set-up of the LGU, Stores-department will normally store assets, until released for installation and Operation, which is the responsibility of the AMO. Internal Requisition, Invoice and Good received note will be sent to Accounting Department for normal Approval Routine before payment.</td>
</tr>
</tbody>
</table>

The Accounting department will handle the incoming invoice according to internal Accounting Routines and record financial data to the Accounting system.
<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>4. Handling of asset in the FA-register.</strong></td>
<td>The Finance Director or Chief Accountant will define the goods received as Fixed Assets if the LGU Policy is met.</td>
<td>If this is applicable, the registration of asset can be approved. Necessary information will be keyed into the FA Register.</td>
</tr>
<tr>
<td></td>
<td>The Accounting department will have a routine to reconcile the account for Goods received/Fixed Assets at regular intervals.</td>
<td>The AMO will obtain necessary approval(s) of the invoice and documents according to the LGU internal regulations at any prevailing time. Assuming that the Fixed Assets Register is an integrated module with the Accounting System, the AMO will register the new Asset as DR to the appropriate account in the GL (including correct Coding) and CR the Goods Received account. Fixed Assets Register is updated and a detailed report should accompany the invoice to the Accounting Department for the Payment Process and Filing Purpose.</td>
</tr>
<tr>
<td><strong>5. Physical Handling of Asset, following acceptance and approval.</strong></td>
<td>The AMO must carry out the Tagging-procedure, Insurance-inspection and other necessary inspections prior to releasing the asset from the Stores department. Person(s) responsible for the new asset should be notified in order to make preparations locally. The AMO should issue a release note to the Stores Department, with a copy to the receiving Unit.</td>
<td></td>
</tr>
<tr>
<td><strong>6. Installation of the asset locally, and follow up.</strong></td>
<td>The AMO must follow up on regular intervals to a certain that Warranty, Insurances, and maintenance schedules are kept up to date.</td>
<td></td>
</tr>
</tbody>
</table>
ANNEX VI

ANNEX VI: Procedure - Fixed Assets Update (Disposal, Transfer & Relocation)
PROCEDURE - FIXED ASSETS UPDATE (DISPOSAL, TRANSFER & RELOCATION)

- An internal *Fixed Assets Update Form* must be filled in and is the basis of information of change of location to an asset (or part thereof) in the Fixed Assets System. The document contains information to be registered in the Fixed Asset Register. The Form applies to any the Fixed Assets ID or subsequent Sub-ID to an existing asset. The form shall be used in connection with all activity of any Fixed Asset or Sub-assets. (Transfer, Relocation & Disposals)

The Procedure:

<table>
<thead>
<tr>
<th>MAIN TASKS</th>
<th>ACCOUNTING PROCEDURES</th>
<th>AMO PROCEDURES &amp; DUTIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Activity</strong></td>
<td></td>
<td><strong>1. Transfer</strong>&lt;br&gt;2. Relocation&lt;br&gt;3. Disposal&lt;br&gt;Activity to be identified by the responsible person, who will fill in the Form and obtain approval(s) according to LGU internal procedure. The Form is given to the Asset Management Officer (AMO), who is responsible for recording the activity in the Fixed Assets Register and changing the tag.</td>
</tr>
<tr>
<td><strong>2. Transfer/Relocation</strong></td>
<td></td>
<td><strong>In case of Transfer or Relocation, applicable information in the Form is recorded. If Transfer or Relocation involves a new cost center AMO must assure this change and change the tag.</strong></td>
</tr>
<tr>
<td><strong>3. Disposal</strong></td>
<td><strong>The Accounting department will handle the information from the Asset Register according to internal Accounting Routines.</strong></td>
<td><strong>In case of identification of assets for disposal or scrapping, the AMO should update the Fixed Asset Register, remove the tag, list the asset on surplus property list and store it in a separate warehouse. If the asset is stolen, special procedure in accordance with LGU policies should be followed such as involving police and/or insurance company.</strong></td>
</tr>
</tbody>
</table>
| 4. Reporting | Reports to Management should be produced monthly. This should be reporting on an aggregated economic level, listing main assets:
1. Acquired this period.
2. Transferred this period.
3. Disposed this period.
4. Other Ad Hoc reports |
The Accounting Department will reconcile the periodical report with the General Ledger.

This report shall be copied to the Accounting department for reconciliation with the GL.

<table>
<thead>
<tr>
<th><strong>5. Discrepancies</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The Accounting Department will report any discrepancies to Management, who will decide appropriate action to be taken.</td>
</tr>
</tbody>
</table>

Enclosure: Form – Inventory Update Form
ANNEX VII

ANNEX VII: Procedure - Fixed Assets Update Form
## FIXED ASSETS UPDATE FORM

### GENERAL INFORMATION

<table>
<thead>
<tr>
<th>Date:</th>
<th>Form completed by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Asset ID:</td>
<td>Phone / Fax:</td>
</tr>
<tr>
<td>Tag ID:</td>
<td>E-mail:</td>
</tr>
<tr>
<td>Manufacturer:</td>
<td>Serial No.</td>
</tr>
<tr>
<td>Model:</td>
<td></td>
</tr>
</tbody>
</table>

### EQUIPMENT TRANSFER

| Transfer FROM Department: | Approval Signature: |
| Transfer TO Department: | Approval Signature: |
| New Location Building: | Room No. |
| Responsible Person: | Phone / Fax: |
| | E-mail: |
| Comments: | |

### EQUIPMENT DISPOSAL

<table>
<thead>
<tr>
<th>Scrapped:</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Traded in :</td>
</tr>
<tr>
<td>* Sold :</td>
</tr>
<tr>
<td>Lost</td>
</tr>
<tr>
<td>* Stolen</td>
</tr>
</tbody>
</table>

- Copy to Accounting Department/Management

### EQUIPMENT RELOCATION

<table>
<thead>
<tr>
<th>New Building:</th>
<th>New Room:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comments:</td>
<td>Responsible Person:</td>
</tr>
<tr>
<td></td>
<td>Phone/Fax:</td>
</tr>
<tr>
<td></td>
<td>E-mail:</td>
</tr>
</tbody>
</table>
Date processed:
Name:

In triplicate original to the LGU council, copy to the accounting department, third copy remains with the AMO
ANNEX VIII

ANNEX VIII: Procedure - Fixed Assets Tagging
PROCEDURE - FIXED ASSETS - TAGGING

- Fixed Assets is property of high value and/or of an attractive nature. Tagging of such property is of importance both to the public as well as normal awareness within the LGU. Hence, it is of importance to follow this procedure within the LGU and by doing so, good control can be achieved.

The Procedure:

<table>
<thead>
<tr>
<th>MAIN TASKS</th>
<th>ACCOUNTING PROCEDURES</th>
<th>AMO - PROCEDURES &amp; DUTIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipt of Goods</td>
<td>Depending on the Organization and Set-up of the LGU, Stores-department will normally store assets, until released for installation and Operation. AMO is responsible to issue release-note. The AMO has the responsibility initiate tagging of all new assets. Practical tagging will vary between the natures of the asset.</td>
<td></td>
</tr>
<tr>
<td>Relocation</td>
<td>The AMO should change the tag and replace with a new tag.</td>
<td></td>
</tr>
<tr>
<td>Disposal</td>
<td>The Accounting Department will handle Disposal according to the LGU internal Accounting Routines. The AMO must carry out demarking and update the Fixed Asset Register, Insurance-notification and other necessary inspections prior to deleting the fixed asset from the Fixed Assets register. A special report from the Fixed Asset Register shall be duly approved by the Head of Department and LGU Management, before Filing.</td>
<td></td>
</tr>
</tbody>
</table>
ANNEX IX

ANNEX IX: Procedure - Fixed Assets Physical Count
PROCEDURE - FIXED ASSETS PHYSICAL COUNT

➢ In order to safeguard the property of the LGU a Fixed Assets Register needs to be verified at regular intervals. The software will provide reports on various levels which need to be approved by the Heads of Departments after physical counting according to routines.

The Procedure:

<table>
<thead>
<tr>
<th>MAIN TASKS</th>
<th>ACCOUNTING PROCEDURES</th>
<th>AMO – PROCEDURES &amp; DUTIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Quarterly Procedure or Semi-Annual Procedure</td>
<td>If and when necessary, Accounting Department will handle the information according to internal accounting routines.</td>
<td>The Quarterly/Semi-Annual procedures will be reports on a detailed level, however, on a random basis. (i.e. Management will select which part of the LGU Operation that should do a physical count. Deviations shall be handled and updated in the Fixed Assets System after necessary approvals, depending on the nature of the discrepancy.</td>
</tr>
</tbody>
</table>
ANNEX X

ANNEX X: Procedure - Fixed Assets Depreciation Rate Schedule
### Depreciation Schedules - Indications on Annual Depreciation

<table>
<thead>
<tr>
<th>FIXED ASSET CLASS</th>
<th>FIXED ASSET GROUPS</th>
<th>ANNUAL DEPRECIATION INDICATION RANGE IN % PER ANNUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property/Land</td>
<td>No depreciation of Land.</td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>Offices</td>
<td>1.43 - 2.0 %</td>
</tr>
<tr>
<td></td>
<td>Buildings - Electricity</td>
<td>1.25 - 4.0 %</td>
</tr>
<tr>
<td></td>
<td>Buildings - Water/Sewage</td>
<td>1.43 - 2.86 %</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>All Construction works.</td>
<td>No depreciation during Construction period.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------</td>
<td>----------------------</td>
<td>-----</td>
</tr>
<tr>
<td><strong>Electricity Systems</strong></td>
<td><strong>Switchgear/Main Substations,</strong> End of previous line</td>
<td><strong>2.5</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Outdoor switches, Capacitors,</strong> End of previous line</td>
<td><strong>1.7</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Transformers and Underground Cables.</strong></td>
<td><strong>3.4</strong></td>
</tr>
<tr>
<td><strong>Water Systems</strong></td>
<td><strong>Wells</strong></td>
<td><strong>3.34</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Transmission, Mains</strong></td>
<td><strong>2.0</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Valves on Transmission Main.</strong> End of previous line</td>
<td><strong>4.0</strong></td>
</tr>
<tr>
<td></td>
<td><strong>(Chambers)</strong></td>
<td><strong>5.0</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Pump Stations and Valves on distribution Network</strong></td>
<td><strong>2.5</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Distribution Network.</strong></td>
<td><strong>2.0</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Water Tanks.</strong></td>
<td><strong>6.67</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Consumer Connections</strong></td>
<td><strong>6.67</strong></td>
</tr>
<tr>
<td><strong>Sewage Systems</strong></td>
<td><strong>Transmission, Mains</strong></td>
<td><strong>2.0</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Pump Stations</strong></td>
<td><strong>6.67</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Distribution Network</strong></td>
<td><strong>2.5</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Waste Treatment Plant</strong></td>
<td><strong>3.33</strong></td>
</tr>
<tr>
<td><strong>Storm Water Systems</strong></td>
<td><strong>Transmission, mains</strong></td>
<td><strong>2.0</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Pump Stations</strong></td>
<td><strong>6.67</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Distribution Network</strong></td>
<td><strong>2.5</strong></td>
</tr>
<tr>
<td>General Infrastructure</td>
<td>Street lights, Asphalt Roads &amp; Sidewalks</td>
<td>Machinery &amp; Equipment</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>------------------------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>6.67 20.0 %</td>
<td>Furniture</td>
</tr>
<tr>
<td></td>
<td>1.43 2.0 %</td>
<td>Photocopiers, Computer Hardware &amp; General Office equipment.</td>
</tr>
<tr>
<td></td>
<td>2.0 4.0 %</td>
<td>Computer Software (Off-The-Shelf Systems &amp; includes license fees and consultancy costs during implementation)</td>
</tr>
<tr>
<td></td>
<td>20.0 33.3 %</td>
<td>Computer software (Developed In-house)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Vehicles and Heavy Machinery</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Art &amp; Cultural Monuments</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Paintings</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Monuments</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>No depreciation on these items.</strong></td>
</tr>
</tbody>
</table>
ANNEX XI

ANNEX XI: Procedure - Fixed Assets Coding Specification