PROPERTY, PLANT & EQUIPMENT (PP&E)

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Related Documents 1. IPSAS 1, *Presentation of Financial Statements* 2. IPSAS 16, *Investment Property* 3. IPSAS 17, *Property, Plant and Equipment* 4. IPSAS 21, *Impairment of Non-Cash Generating Assets* 5. UN Guidance on First Time Recognition of PP&E 6. UN Guidance Note 1: PP&E Classification 7. UN Guidance Note 3: Opening Balance & Fair Value Measurement of PP&E.	

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UNDP PP&E Capitalisation, Depreciation and Impairment Policy

1. Purpose

The purpose of this policy document is to: set out the IPSAS requirements with respect to Property, Plant & Equipment (PP&E); clarify the scope of PP&E for UNDP; and, outline the policy determinations that will be applied in the adoption of IPSAS.

This policy document provides the authoritative rules and methods for the accounting treatment and financial reporting to be applied for PP&E and their subsequent depreciation and or impairment in compliance IPSAS 1, 16, 17, and 21.

2. Scope

The PP&E policy will apply to all of UNDP's operations. As UNDP's operations are conducted under several different modalities, the specific application of the policy will depend upon the modality. As outlined in more detail below, those modalities under which UNDP "uses and controls" an asset will lead to the asset's being capitalised under the PP&E rules; for those modalities under which UNDP does not use or control the asset, the PP&E rules will generally lead to the item being expensed and not capitalised.

Accordingly, the PP&E policy will, generally, apply to:

- Management assets ; and,
- Project assets under direct and direct-type implementation,

And will not be applicable to:

- Items of a capital nature procured solely for distribution to third parties; or,
- Items of a capital nature that are not intended to be used by UNDP in the conduct of its mission.

3. Key Definitions

Assets - resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Control of an asset - Arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.[3] ...Only when a claim is enforceable, and the entity assesses that it is probable that the inflow of resources will occur will assets ... be recognised.[4] *(Emphasis added).*

Carrying amount of a fixed asset - the amount at which an asset is recognised after deducting any accumulated depreciation or amortization and accumulated impairment losses.

[3] IPSAS 23.7

[4] IPSAS 23.79

Class of PP&E - a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost - the amount of cash or cash equivalents paid and the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Depreciation- the systematic allocation of the depreciable amount of a tangible asset over its useful life.

Depreciable amount - the cost of an asset, or other amount substituted for cost, less its residual value.

Fair value - the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets - assets that have unique cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

(a) Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

(b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

(c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and

(d) It may be difficult to estimate their useful life.

Impairment - a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

PP&E - tangible items that:

- Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- Are expected to be used during more than one reporting period.

Recoverable amount - the higher of a cash-generating asset's fair value less costs to sell and its value in use.

Residual value of an asset - the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life:

- which an asset is expected to be available for use by an entity; or

- The number of production or similar units expected to be obtained from the asset by an entity.

4. Background

4.1 UNSAS

Under the current United Nations System Accounting Standards (UNSAS), UNDP does not capitalise or depreciate any amounts as PP&E. Accordingly, expenditures on capital items are expensed together with other items of expense, such as repairs and maintenance and utilities.

4.2 IPSAS Requirements

IPSAS requirements with respect to PP&E are set out, primarily in IPSAS 17 - *Property, Plant and Equipment*, (IPSAS 17). Additional guidance on specific issues is contained in the following standards:
IPSAS 1 - *Presentation of Financial Statements*;
IPSAS 16 - *Investment Property*; and
IPSAS 21 - *Impairment of Non-Cash Generating Assets*

A summary of the IPSAS requirements, principally derived from IPSAS 17, is as follows:

4.2.1 Recognition

An item of PP&E should be recognised as an asset when:

- It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- The cost or fair value of the asset to the entity can be measured reliably.

Initially, an item of PP&E which qualifies for recognition as an asset should be measured at its cost. Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

4.2.2 Components of Cost

The cost of an item of PP&E comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition necessary for its intended use. Examples of directly attributable costs are: (a) The cost of site preparation; (b) Initial delivery and handling costs; (c) Installation costs; and (d) Professional fees such as for architects and engineers.

Administration and other general overhead costs are not components of the cost of PP&E.

4.2.3 Finance Leases

The cost of an asset held by a lessee under a finance lease is determined using the principles set out in IPSAS 13, *Leases*.

4.2.4 Subsequent Expenditure

- Subsequent expenditure relating to an item of PP&E that has already been recognised should be added to the carrying amount of the asset when it is probable that future economic benefits will flow to the entity.
- All other subsequent expenditures should be recognised as expenses in the period in which they are incurred. Expenditures related to repairs or maintenance of PP&E are made to restore or maintain the future economic benefits or service potential that an entity can expect from the most recently assessed standard of performance of the asset. As such, they are usually recognised as an expense when incurred.

4.2.5 Revaluations

- An entity may elect to adopt a policy to periodically revalue, subsequent to initial measurement, its PP&E on a class by class basis. Such an election would replace the cost method for subsequent measurement.

4.2.6 Depreciation

- The depreciable amount of an item of PP&E should be allocated on a systematic basis over its useful life.
- The depreciation method used should reflect the pattern in which the asset's economic benefits or service potential is consumed by the entity.
- The depreciation charge for each period should be recognised as an expense.
- The following factors need to be considered in determining the useful life of an asset:
  (a) The expected usage of the asset by the entity;
  (b) The expected physical wear and tear on the asset;
  (c) Technical obsolescence;
  (d) Legal or similar limits on the use of the asset, such as the expiry of related leases.
- A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the sum-of-the-units method. Straight-line depreciation results in a constant charge over the useful life of the asset.
- Each part of an item of PP&E with a cost that is significant in relation to the total cost shall be depreciated separately (i.e. the cost shall be componentised).

4.2.7 Review of Useful Life

- The useful life of an item of PP&E should be reviewed periodically and, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.

4.2.8 Review of Depreciation Method

- The depreciation method applied to PP&E should be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits or service potential from those assets, the method should be changed to reflect the changed pattern.

4.2.9 Impairment Losses

- An assessment of recoverability is required to be performed and an impairment charge recognised where the carrying value exceeds the recoverable amount. Further detail is included in IPSAS 21 - *Impairment of Non-Cash Generating Assets.*

4.2.10 Transition Period

- An entity may take up to 5 years to begin recording PP&E. Such an election is intended to be used by entities that are experiencing difficulties in gathering the requisite data for accrual accounting.

4.3 Nature of UNDP PP&E

4.3.1. Classes of assets

Notwithstanding that UNDP does not capitalise any assets under UNSAS, certain data is maintained, for custodial purposes, in a fixed asset register. The data so captured is principally vehicles, equipment, heavy machinery and furniture & fixtures. Additional analysis was performed on land and buildings, classes that have not, historically been tracked in the asset register.

Based on the analysis it was determined that UNDP would use the following classes of fixed assets for financial reporting purposes:

1. Land
2. Buildings
3. Leasehold improvements
4. Communications and IT equipment
5. Heavy machinery and other equipment
6. Vehicles
7. Furniture & Fixtures

With respect to these classes, the following should be noted:

1. and 2. Land and Buildings – UNDP owns or controls a small number of buildings and the land on which the building is located. (The current estimate is that there are approximately 17 – 20 buildings.) The buildings mainly comprise office buildings in Nepal, Nicaragua, and Venezuela in addition to certain residential buildings, including, for example a large residential compound in S. Sudan.

Common Premises

The treatment of common premises will be based on identifying the controlling entity. Where UNDP is the controlling entity the premises will be capitalised.

A joint review will be performed with other agencies sharing common premises to ensure that mutually consistent accounting is being employed.

3. Leasehold Improvements (LHI) – in many of the leased premises UNDP performs "improvements" (also known as a build-out). The improvements become a permanent part of the structure, such as walls, rooms, electrical or plumbing. The main types of improvements are as follows:
    - Additional infrastructure such as access control equipment, security systems, and voice/data ports
    - Upgrade existing infrastructure e.g. new HVAC,
    - Upgrade fittings/fixtures such as carpets, blinds, driers, dispensers, built-in filing systems and sub-meters.

   See section 5.8 below for further detail.

4. Communications and IT Equipment – includes laptops, desktops, fax machines, printers, photocopiers, networking equipment, networking equipment, servers, etc.

5. Heavy Machinery and other equipment – includes generators and other construction related items purchased for use on specific projects. Includes equipment that has not already been captured as part of the class that includes IT equipment.

6. Vehicles – includes trucks, monitoring vehicles, motorcycles and armoured vehicles.

   Note - a large volume of vehicles is purchased by UNDP or with UNDP resources. Not all of these purchases will be capitalised by UNDP and, as outlined below, only vehicles that UNDP uses and controls in the provision of its development work shall be capitalised.

Thus, cars purchased under NIM programs will not be capitalised by UNDP and cars that are purchased by UNDP solely for distribution to a Government will not be capitailised.

7. Furniture & Fixtures – includes desks, tables, workstations, removable partitions, etc.

UNDP has two broad categories of fixed assets, namely:

(i) **Management Assets** – all fixed assets purchased using funds from UNDP Administrative Budget. Such assets, generally, comprise assets associated with HQ and COs that enable UNDP to conduct its non-project specific operations.

(ii) **Project Assets** – all fixed assets purchased using Programme Funds. The treatment of Project assets will depend upon the extent to which the asset is used and controlled by UNDP as discussed in section 5.6 below. The existing modalities are described in section 4.3.2 below.

4.3.2 Execution modalities relevant to PP&E determination

There are four main execution modalities dealing with project assets. In reviewing these modalities it should be borne in mind that, although there may be a significant amount of capital type expenditure related to projects, a significant amount of such expenditure is not capitalisable by UNDP.

The four main modalities and the extent to which the expenditures may be capitalisable by UNDP are as follows:

DIM PROJECTS: Projects that are directly implemented under the auspices of the UNDP.

This form of execution is performed when the national government is unwilling or unable to implement the project. Under DIM projects, UNDP expends resources for expenses and for capital items. The capital item may be used by the UNDP in performance of the project (such assets will be capitalised and depreciated if the project is for a period of more 12 months) or be part of the ultimate deliverable project (in which case the asset will be expensed).

NIM PROJECTS: Projects that are directly implemented by the National Government. UNDP uses different cash transfer modalities to such governments who are responsible for the implementation of the project.

Any capital items employed for NIM project will be expensed and treated as an integral part of normal NIM project expense since ownership and control of the fixed assets always resides with the programme country Government and not UNDP.

COUNTRY OFFICE SUPPORT to NIM PROJECTS: Where UNDP assists a National Government in the implementation of a project.

Fixed assets employed for UNDP support to NIM projects of period more than 12 months must be capitalised and depreciated as UNDP fixed assets. Where however the UNDP support to NIM project is of period less than 12 months, or the support procures items of a capital nature solely for distribution to third parties, the fixed assets must be expensed.

AGENCY IMPLEMENTATION OF PROJECTS: Fixed assets employed for projects by UN agencies acting as executing or implementing agencies.

For these projects, fixed assets expenditures by the executing agent will be expensed by UNDP when expended by the executing agent.

Criteria for determination of whether a UNDP asset arises: The above rules of thumb are based on the definition of use and control. Reference should be made to the discussion of control in section 5.6 below and also to Appendix A for further analysis.

5. Detailed Policy

5.1 Policy Statement

Any item of PP&E acquired or constructed by UNDP for the purpose of delivering on its development mandate which meet all of the following criteria shall be capitalised:

(a) The item is expected to be used for a period of more than 12 months;
(b) The item is used or controlled by UNDP (generally either at a Country Offices, HQ Offices or other management site; or at a Project Site),
(c) The total cost of the item (on an individual, non-grouped, basis) is over US[$500];

The capitalised item must be subsequently depreciated over its useful life from the start of the usage of the asset, and is to be evaluated for impairment where and when applicable. All fixed assets not meeting the above definition must be expensed during the financial period in which they are purchased. Additionally, Heritage Assets will not be capitalised.

The appropriate distinction among (i) management assets, and (ii) project assets, shall be maintained in the asset register for the following classes of PP&E:

(i) Land
(ii) Building
(iii) Leasehold Improvements
(iv) Communication & IT Equipment
(v) Heavy Machinery & Other Equipment
(vi) Vehicles
(vii) Furniture & Fixtures

5.2. PP&E Recognition and Measurement

The various classes of PP&E whether acquired through exchange or non-exchange transaction are recognised at cost where the item of PP&E determined to have service potential or future economic benefits to UNDP and where the cost is over US[$500].

PP&E Measurement

The measurement of the various categories of assets both at initial recognition and after recognition until disposal, retirement or transfer shall be as follows:

PP&E Measurement at Recognition

A recognised PP&E shall be measured at its cost or, where acquired through non-exchange transaction, at its fair value as at the date of acquisition, which shall be a proxy for cost.

The cost of an item of PP&E comprises (a) purchase price, import duties, purchase taxes, after deducting trade discounts and rebates; (b) directly attributable costs to bringing the asset to the location and condition necessary for operations to commence; and (c) any estimates of dismantling and removal costs, and location restoration costs.

Donated assets shall be capitalised at the fair value of the asset donated assuming that the item meets all of the definitions of an asset, including the capitalisation limit of [$500].

PP&E Measurement after Recognition

UNDP has elected to apply the cost model to measurement after recognition instead of the revaluation model. As such, under the cost model, after recognition as an asset, an item of PP&E shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses.

5.3. Classes of Asset and Depreciation

Each asset shall be depreciated when it is available for use, using the straight-line method over its useful life, as stated below, on monthly basis, using the actual month convention:

Class	*Depreciable life*
Land	Indefinite
Buildings	40 years
Leasehold Improvements	Shorter of lease term or useful life of the applicable asset
Communication and IT equipment	4 years
Heavy Machinery and other equipment	10 years
Vehicles	5 years
Furniture & Fixtures	8 years

The actual month convention requires that, if an asset were placed into service on January 28, 2010, then the depreciation charge would be for a full month of January and not just for three days.

Residual values – UNDP has determined that, given the expected pattern of usage, there are no residual values for any fixed assets following full depreciation.

Componentisation – based on the assets being capitailised, UNDP has determined that the assets being captured will not contain individually significant components. (Thus, there will be no componentisation for vehicles, communication and IT equipment or furniture and fixtures. In connection with the review of the building valuation, UNDP will reassess the extent to which building assets should be allocated into separate components.)

5.3.1 Impairment of PP&E

The determination and recognition of impairment of UNDP assets shall be undertaken centrally with support from the Country Offices, field offices and other locations.

Impairment Loss: UNDP shall assess at each reporting date whether there is any indication that an asset may be impaired by requesting all locations to submit a response to a predetermined questionnaire. Where it is established that there is an indication of potential impairment, UNDP shall determine the impairment loss of the asset item using the appropriate recoverable service amount, as set out in paras. 44-50 of IPSAS 21.

Impairment Loss Reversal: UNDP shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods no longer exists, or may have decreased. Where any such indication exists, UNDP shall consider whether all or a portion of the impairment loss should be reversed.

5.4. Investment Property

UNDP does not engage in the business of managing investment property. Accordingly, most of the provisions of IPSAS 16 do not apply.

Where UNDP sublets premises that it has acquired under a lease, UNDP's policy will elect to record subsequent measurement at cost and not revalued amount.

5.5. Disposal (De-recognition)

Any item of PP&E shall be accounted for as a disposal when:

i) permanently withdrawn from use (retired);
ii) transferred to a UN Agency or NGO or programme Country Government; or,
iii) sold to a third party entity.

An asset of any category shall be derecognised from the Asset Module of ATLAS and the General Ledger on disposal.

The accounting treatment varies by type of disposal as follows:

Permanently withdrawn from use (retired)

Where an asset is retired from use once it is fully depreciated, both the cost and accumulated depreciation accounts will be zeroed out.

Where an asset is retired from use prior to its being fully depreciated, both the cost and accumulated depreciation accounts will be zeroed out and a loss recognised as loss on disposal.

Transferred to a UN Agency or NGO or programme Country Government

Transfers generally occur when an asset is transferred to a third party for no consideration. This frequently happens at the conclusion of DIM-type projects where all remaining capital items (such as vehicles and equipment) are transferred to the National government.

Where an asset is transferred, both the cost and accumulated depreciation accounts will be zeroed out and any remaining net book value will be recognised as an expense category related to the transfer. (The expense account to be used shall be different to the account used for the gain or loss on disposal.)

Sales to a third party entity

Where an asset is sold to a third party for consideration, both the cost and accumulated depreciation accounts will be zeroed out and any difference between the net book value and the consideration recognised as a gain or loss on disposal, as applicable.

5.6. Definition of use and control

UNDP shall capitalise those assets that it uses and controls.

Given the nature of UNDP's operations, it has been determined that UNDP shall be deemed to have control over any item that it uses in the pursuit of its mission. Assets acquired by UNDP for purposes of delivery and that are not to be used by UNDP will not be capitalised as UNDP fixed assets.

In general, an asset will meet the "use and control" criteria where it is physically located on premises used by UNDP (whether owned or leased).

See Appendix A for examples of when an asset should be capitalised as a UNDP asset. Appendix A clarifies the various key scenarios associated with when a projects asset qualifies for capitalisation as a UNDP asset.

For purposes of clarity, the following accounting policy shall be applied to the four main implementation modalities dealing with project assets:

DIM PROJECTS: Under DIM projects, UNDP expends resources for expenses and for capital items. The capital item may be used by the UNDP in performance of the project (such assets will be capitalised and depreciated if the project is for a period of more 12 months) or be part of the ultimate deliverable project (in which case the asset will be expensed).

NIM PROJECTS: UNDP uses different cash transfer modalities to such governments who are responsible for the implementation of projects. Any capital items employed for NIM project will be expensed and treated as an integral part of normal NIM project expense since ownership and control of the fixed assets resides with the programme country Government and not UNDP.

UNDP SUPPORT to NIM PROJECTS: Fixed assets employed for UNDP support to NIM projects of period more than 12 months must be capitalised and depreciated as UNDP fixed assets using the same criteria as for DIM Projects above. Items of a capital nature procured solely for distribution to third parties will not be capitalised.

AGENCY EXECUTION PROJECTS: For these projects, fixed assets expenditures made by the executing agent will be expensed by UNDP when expended by the executing agent.

5.7. Capitalisation limit

As noted above, under UNSAS, no PP&E was capitalised although, for certain custodial purposes, a threshold of $500 was used for the purposes of including management items in an asset register. The use of capitalisation limits is a means to eliminate capturing and recording a large volume of immaterial items, thereby allowing a more practical number of assets to be captured and recorded. The items not capitalised, i.e. those below the threshold, are expensed immediately.

In conjunction with the adoption of IPSAS, UNDP has analysed the issue and has determined that cap limits will be used as follows:

5.7.1 All PP&E except LHI

Based on a preliminary review of the nature and amounts of expenditure that will fall into the six classes of assets (other than LHI), UNDP has determined that its threshold for capitalising individual assets will be [$500]. Individual items below [$500] will be expensed immediately for accounting purposes.

In the application of the [$500] threshold, assets will be viewed individually and not grouped.

In setting the [$500] threshold, it was noted that:

- the use of such a threshold will capture in excess of [90]% of the value of all PP&E for the six categories to which it relates;
- such a limit is appropriate in view of the size of UNDP, viz.
- UNDP's annual cost base exceeds $6 billion;
- UNDP's total assets exceed $8 billion;
- The estimated cost of fixed assets will be a relatively immaterial amount of c. $600 million.

- numerous qualitative factors have been taken into account including the fact that there is likely to be an immaterial impact on reported results on a consistent basis, from using the [$500] threshold. (See Appendix D for additional materiality factors).

It should be noted that many of the quantitative and qualitative factors above would suggest a capitalisation threshold in excess of $500. As UNDP gathers additional data on the fixed assets being capitalised it may review and adjust the threshold if it is determined that a different amount (probably a higher amount given the size of UNDP) is warranted.

5.7.2 LHI

LHI expenditures are different in nature to the other six asset classes. UNDP is in the process of determining an appropriate threshold and manner of its application.

It is likely that a threshold higher than the general capitalization threshold of [$500] will be used and will be applied to the aggregated cost of each, discrete, leasehold improvement.

5.8. LHI

5.8.1 Definition

As noted above, LHIs are improvements (or "build-outs") made to a property acquired under a lease.

Costs should be capitalised for LHI where:

- the improvement is made to a leased property;
- the lessee (i.e. UNDP) pays for the improvement (either up front or over the remaining term of the lease);
- the improvement provides benefits that are long-term in nature (i.e., extend beyond one year); and
- the improvement becomes a permanent part of the property and reverts to the lessor upon termination of the lease. (Note – items that are removable shall be capitalised under a different class of PP&E depending upon the nature of the item. For instance, a removable wall would be capitalised under Furniture and Fixtures.)

Examples of LHI meeting this definition would include:

- Additional infrastructure such as access control equipment, security systems, and voice/data ports;
- Upgrade existing infrastructure e.g. new HVAC or lighting systems;

- Upgrade fittings/fixtures such as walls (for instance to create new rooms or an entrance) and plumbing.

LHIs shall be depreciated in a manner similar to the other six classes of PP&E. For LHI, the depreciable life shall be the shorter of:

- The lease term of the premises on which the improvements have been made, and;
- The depreciable life of the asset.

As with all PP&E a review for impairment shall be performed annually and/or when circumstances warrant.

5.8.2 Leasehold Improvements – Transition Issues related to Opening Balance Sheet

UNDP has analysed the practicability of gathering the data required to record LHI on the opening balance sheet and has determined that, as provided in IPSAS 3, it is not "practicable" to gather such data given that it was not recorded in the required manner when the expenditures were made. Additionally, given the nature of LHI, it is not possible to gather retroactively the data.

5.9. LHI – Decommissioning

Under the terms of certain leases, the tenant is required to incur the cost of restoring the premises, to renovate dilapidations and/or otherwise to restore the premises to their original condition. Where such terms exist, a decommissioning or "dilapidations" liability shall be established.

According to IPSAS 17 and IPSAS 19, if the terms of a lease include an obligation for UNDP to remove specific assets (e.g., leasehold improvements or furniture & fixtures) from the leased premises prior to vacating those premises or to compensate the lessor accordingly then UNDP has to record a liability in its financial statements. Based on IPSAS 19, the liability arises when:

a) There is a present obligation – i.e. the lease imposes a contractual obligation on the lessee to remove the asset at the end of the asset's useful life or upon vacating the premises;

b) The obligation is probable – i.e. it is probable that the lessor will enforce an obligation. As it relates to UNDP, it is necessary to take into account the past experience. In some occasions, the lessor prefers to keep the security improvements made by UNDP in the premises. In those circumstances, the obligation is not probable and no liability is recognised in the financial statements.

c) A reliable estimate can be made of the future liability.

The liability is established based on the following steps:

d) At the beginning of the lease, an estimate is made of the liability that is expected to arise at the end of the lease.

e) The amount is discounted to present value and then recorded as an increase to fixed assets and as a liability (i.e. Dr LHI, Cr Dilapidation reserve).

f) Periodically the liability is accreted to present value and the estimate reviewed to ensure that it is still adequate.

g) The amount capitailised to the asset value is depreciated alongside the remaining cost of the asset.

It is not currently expected that the amount of the dilapidation reserve will be significant. It should be noted that UNDP's standard lease agreement limits exposure to decommissioning: "17(c) Where, with the prior written consent of the Lessor, major alterations, renovations or additions are made on the demised Premises, the UNDP shall not be under any obligation to restore the demised Premises to the state and conditions existing prior to entering upon the same under this Lease Agreement. Such consent shall be set forth in writing and shall contain provisions on the amortization or compensation of the expenses either through offsetting the expenses against rental payments, or payment for their fair market value."

5.10. Transition Provisions/Opening Balance Sheet Considerations

UNDP is reviewing the applicability of the transition provisions that allow for additional time to gather opening balance sheet amounts for all PPE classes.

[However, as noted above, additionally, there are practicability considerations to be made with respect to gathering data for opening balance sheet purposes for the following PPE classes:

- Leasehold improvements for management and project locations would otherwise meet the criteria for capitalisation as UNDP assets, and;
- Furniture and fixtures for project assets that would otherwise meet the criteria for capitalisation as UNDP assets.

UNDP is in the process of verifying and documenting the circumstances surrounding the impracticalities of gathering data on these two areas.

Additionally, UNDP is in the process of gathering a significant quantity of data on all classes of assets. Based on an analysis of this data, UNDP will finalise its considerations with respect to IPSAS adoption.]

5.11. Disclosure Requirements

UNDP shall disclose PP&E as required by IPSAS 17. See draft financial statements for proposed disclosures.

It should be noted that, in addition to the disclosure requirements in IPSAS 17, there will be additional disclosure on the following:

- The impracticability of gathering data on leasehold improvements and certain furniture & fixture balances;
- The disclosure of fixed assets will be made in aggregate and also on a basis disaggregated between management and project assets. This will differentiate between i) assets used on a permanent basis in the management of operations (i.e. management assets) and ii) assets used on a temporary basis in the execution of projects that will, ultimately, be donated to the National Government (i.e. project assets.)

Appendix A – Criteria for determining whether an asset should be capitalised as a UNDP asset

Criterion	*Indicator that items should be capitalised as UNDP asset?*	*Indicator that items should **NOT** be capitalised as UNDP asset?*
1. The act of purchasing the asset was carried out (or resulted from instructions given) by UNDP.	Yes	-
2. Legal title is in the name of UNDP.	Yes	-
3. UNDP obtains an insurance policy on the assets and has risk of loss.	Yes	-
4. The asset is physically located on premises or locations used by UNDP.	Yes	-
5. The asset is physically used by UNDP staff or staff working under UNDP's instructions.	Yes	-
6. UNDP can decide on an alternative use of the asset.	Yes – strong indicator	-
7. UNDP can decide to sell or dispose of the asset.	Yes	-
8. Is the asset used in achieving the objectives of UNDP?	Yes – strong indicator	-
9. The asset is purchased for delivery and will not be used by UNDP.	-	Yes – strong indicator that item is not UNDP asset
10. The asset will be retained by UNDP at the end of the project	Yes – strong indicator	-

Appendix A1 - Project Assets Case Study

Case A: DIM Governance Project – Election in Republic of Vivitania

Details as per Project Document

Project title: Support to election process in the Republic
Project summary: Strengthening the democratic character of Vivitania republic while promoting women's electoral rights and help organizing elections.
Work to perform: Mobilise actors to engineer electoral practices consistent with international standards, promote electoral awareness, organise elections
Target beneficiaries: approximately 500,000 people
Implementation modality: Direct Implementation (DIM)

INPUT CATEGORIES

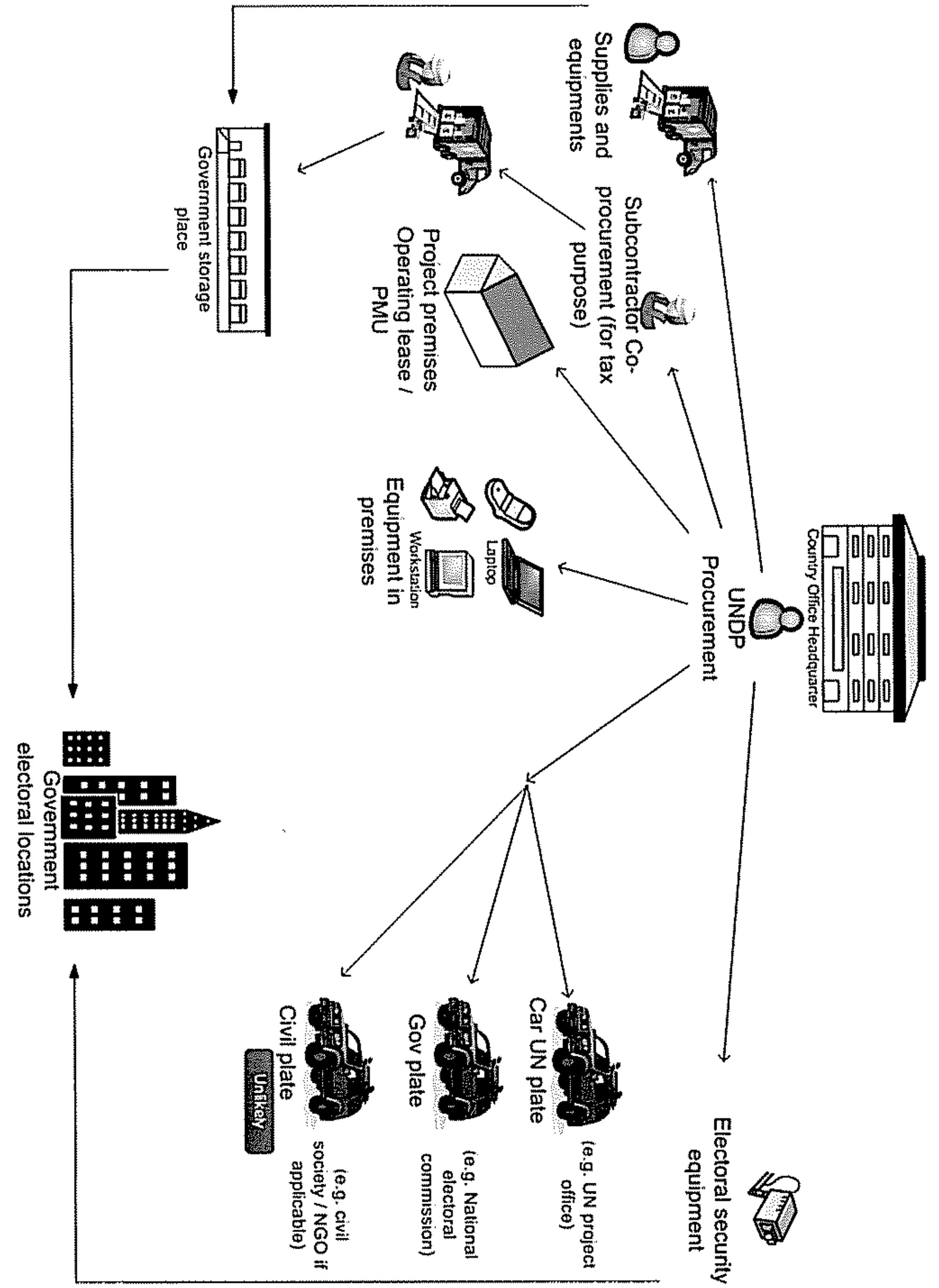
A. Implementation (M$ 20.0)
- Electoral supplies $M 3.00
- Training $M 5.00
- Ballot boxes $M 2.00
- Electoral equipments $M 4.00
- Security equipment $M 6.00

B. Personnel (M$ 4.0)
- International personnel $M 4.00

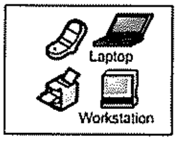
C. Operational costs ($M 1.5)
- Lease project premises $M 0.30
- Equipment $M 0.20
- Local transportation $M 0.90
- Miscellaneous $M 0.10

D. Agency management support ($M 1.80)
- Administration $M 1.80

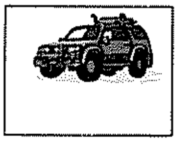
PICTORIAL VIEW: FLOW OF GOODS



CAPITALIZATION DECISION



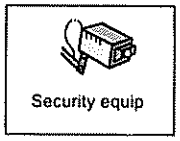
Project assets. Capitalize ✓



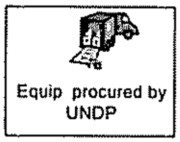
Vehicle. Capitalize. Disposal when the asset is transferred to third party ✓

Government asset

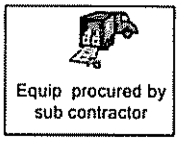
Operating lease. Expense



Deliverable assets. Expense



Deliverable assets. Expense



Deliverable assets. Expense

✓ Capitalize and register in asset module

INPUT CATEGORIES	EXPENSES	PP&E
A. Implementation (M$ 20.0)		
Electoral supplies $M 3.00	$M 3.00	Project Deliverables
Training $M 5.00	$M 5.00	
Ballot boxes $M 2.00	$M 2.00	
Electoral equipments $M 4.00	$M 4.00	
Security equipment $M 6.00	$M 6.00	
B. Personnel (M$ 4.0)		
International personnel $M 4.00	$M 4.00	
C. Operational costs ($M 1.5)		
Lease project premises $M 0.30	$M 0.30	DIM Project Assets

Equipment $M 0.20		$M 0.20
Local transportation $M 0.90		$M 0.90
Miscellaneous $M 0.10	$M 0.10	
D. Agency management support ($M 1.80)		
Administration $M 1.80	$M 1.80	

Appendix A2 - Project Assets Case Study
Case B: DIM Construction Project in Republic of Vivitania

Details as per Project Document

Project title: Electricity network reinforcement programme
Project summary: In the southern sector of Ruritania, initiative has been taken to enhance the generation capacity by the installation of a 40 MW gas turbine in Ruri town and the construction of a 60 MW diesel power plants, assisted by the Government of Japan.
Work to perform: The rehabilitation of Ruri town 132/33/11 kV substation, the reinforcement of local distribution system connected to this substation, capacity building of the Company distribution planning engineers and assistance with the development of a distribution master plan.
Target beneficiaries: approximately 200,000 people
Implementation modality: Direct Implementation (DIM)

INPUT CATEGORIES

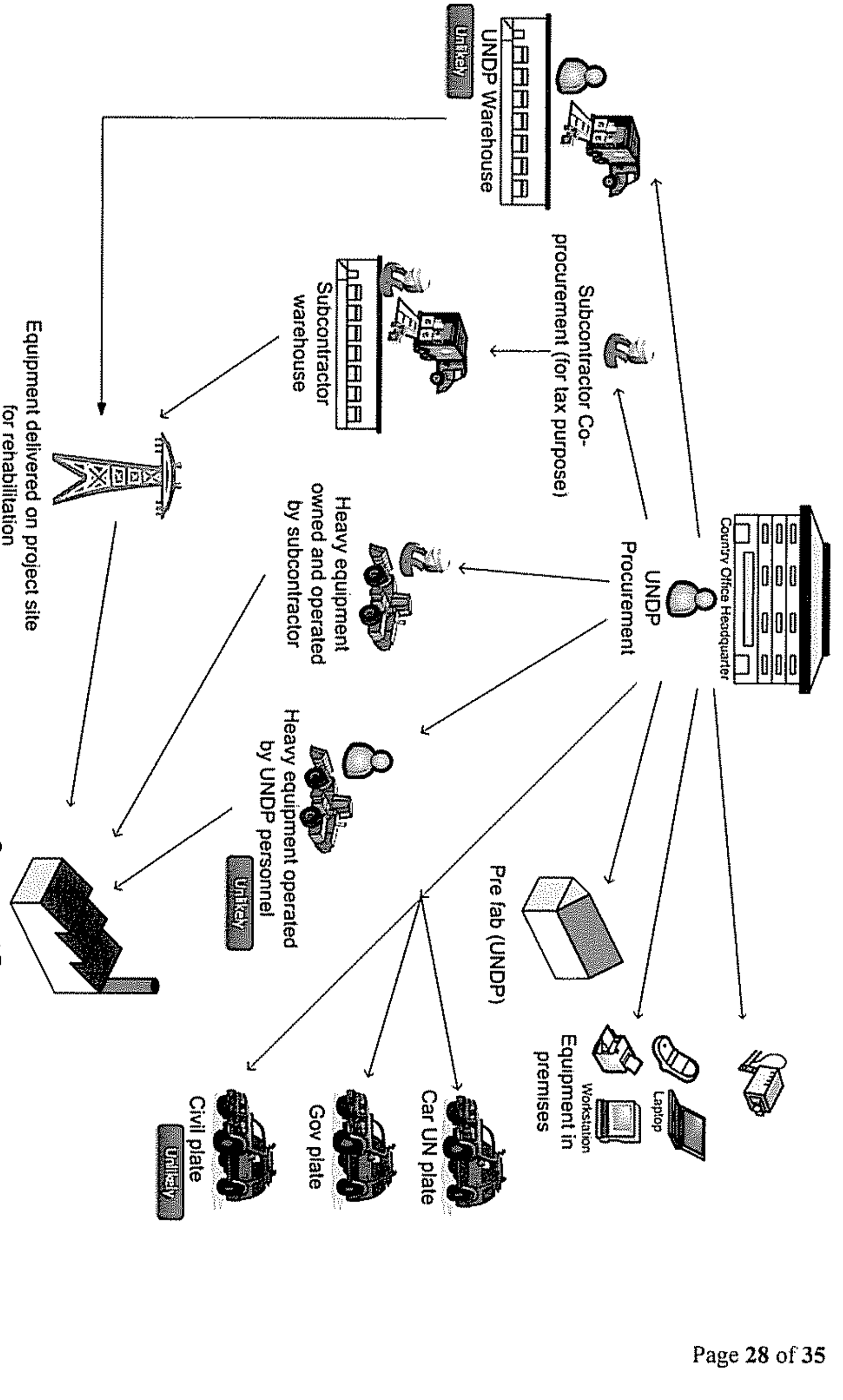
A. Implementation (M$ 5.0)
- Substation $M 3.30
- Distribution equipment $M 1.50
- Distribution planning training $M 0.20

B. Personnel (M$ 0.9)
- International personnel $M 0.50
- National engineer / personnel $M 0.40

C. Operational costs ($M 1.0)
- Office running costs $M 0.03
- Equipment $M 0.04
- Local transportation $M 0.06
- Supplies $M 0.04
- DSA/expense for visitors $M 0.02
- Miscellaneous $M 0.01
- Subcontractors $M 0.80

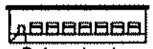
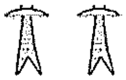
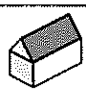
D. Agency management support ($M 0.40)
- Administration $M 0.40

PICTORIAL VIEW: FLOW OF GOODS



NB: combination of several options

CAPITALIZATION DECISION

 Laptop, Workstation	Project assets. Capitalize ✓	 Subcontractor warehouse	Subcontractor asset
 Heavy equipment UNDP	Project assets. Capitalize ✓	 Heavy equipment Subcontractor	Subcontractor asset
 Security equip	Project assets. Capitalize ✓	 Equipments	Deliverable assets. Expense
	Vehicle. Capitalize. Disposal when the asset is transferred to third party ✓	 Government Power plant	Deliverable assets. Expense
 Pre fab (UNDP)	Project assets. Capitalize ✓	 Equip procured by Subcontractor&UNDP	Deliverable assets. Expense
 UNDP Warehouse	Project assets. Capitalize ✓		

✓ Capitalize and register in asset module

INPUT CATEGORIES	EXPENSES	PP&E	
A. Implementation (M$ 5.0)			
Substation	$M 3.30		Project Deliverables
Distribution equipment	$M 1.50		
Distribution planning training	$M 0.20		
B. Personnel (M$ 0.9)			
International personnel	$M 0.50		
National engineer / personnel	$M 0.40		
C. Operational costs ($M 1.0)			
Office running costs	$M 0.03		
Equipment		$M 0.04	DIM Project Assets
Local transportation		$M 0.06	
Supplies		$M 0.04	
DSA/expense for visitors	$M 0.02		
INPUT CATEGORIES	**EXPENSES**	**PP&E**	
Miscellaneous	$M 0.01		
Subcontractors	$M 0.80		

D. Agency management support ($M 0.40)	Administration	$M 0.40

Appendix A3 - Project Assets Case Study

Case C: UNDP Support to NIM Project

Details as per Project Document

Project title: Electricity network reinforcement programme support by UNDP
Project summary: In the central region of Ruritania, UNDP has been requested to support an initiative to enhance the generation capacity by the installation of a 60 MW gas turbine in Mueri town and the construction of a 80 MW diesel power plants, assisted by the Government of Japan.
Work to perform: The rehabilitation of Mueri town 132/33/11 kV substation, the reinforcement of local distribution system connected to this substation, capacity building of the Company distribution planning engineers and assistance with the development of a distribution master plan.
Target beneficiaries: approximately 380,000 people
Implementation modality: Support to NIM

INPUT CATEGORIES

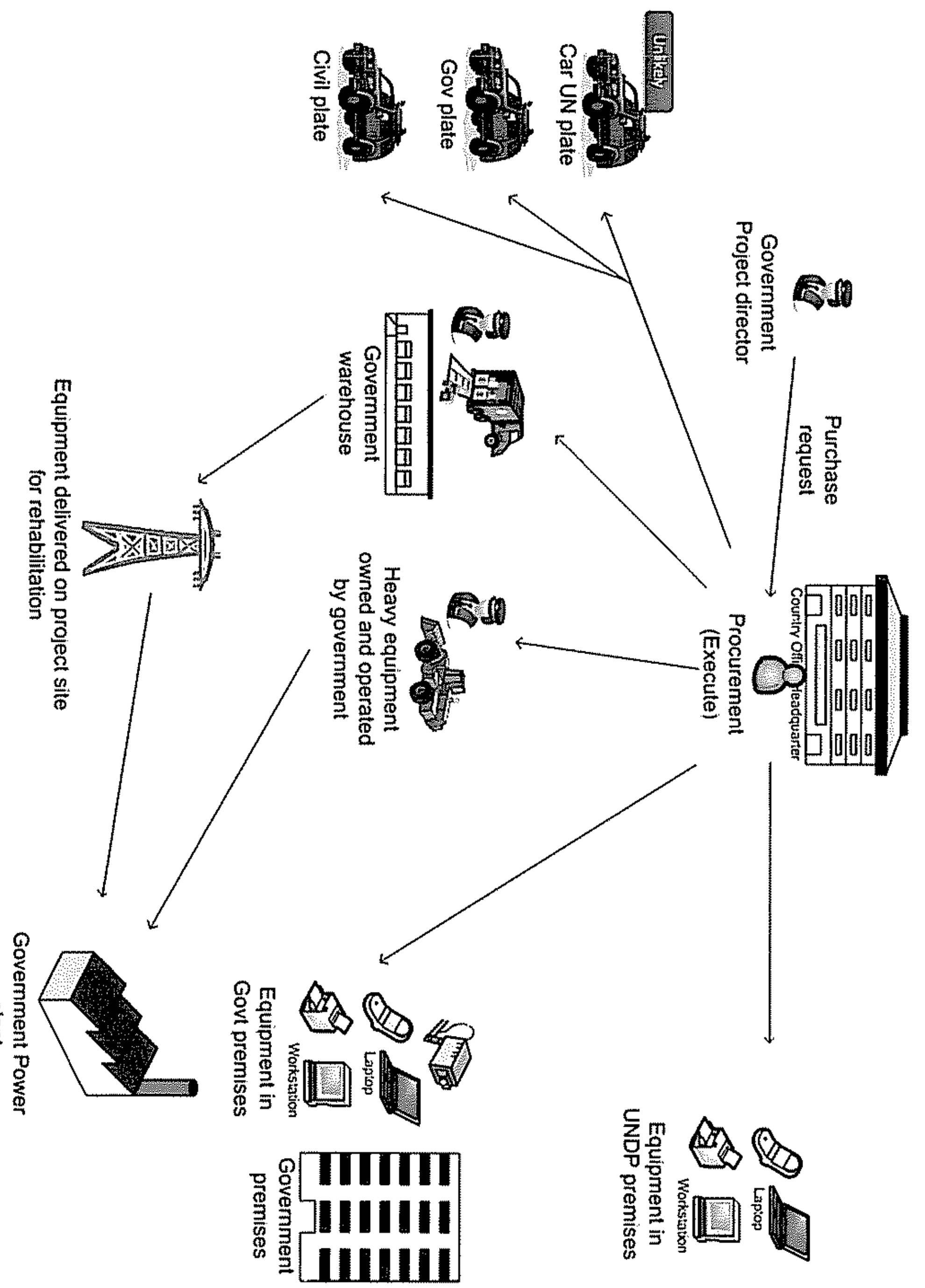
A. Implementation (M$ 7.0)
- Substation $M 4.50
- Distribution equipment $M 2.10
- Distribution planning training $M 0.40

B. Personnel (M$ 1.9)
- International personnel $M 1.05
- National engineer / personnel $M 0.85

C. Operational costs ($M 1.8)
- Office running costs $M 0.05
- Equipment $M 0.07
- Local transportation $M 0.10
- Supplies $M 0.07
- DSA/expense for visitors $M 0.06
- Miscellaneous $M 0.05
- Subcontractors $M 1.40

D. Agency management support ($M 0.35)
- Administration $M 0.35

PICTORIAL VIEW: FLOW OF GOODS



CAPITALIZATION DECISION

Laptop Workstation Equip in UNDP premises	Project assets. Capitalize ✓	Government warehouse	Government asset
Laptop Workstation Equip in Gov premises	Government asset. Expense	Heavy equipment Government	Government asset. Expense
Security equip	Government asset. Expense ✓	Equipments	Deliverable assets. Expense
	Vehicle. Capitalize. Disposal when the asset is transferred to third party ✓	Government Power plant	Deliverable assets. Expense
		Government supplies	Deliverable assets. Expense

✓ Capitalize and register in asset module

INPUT CATEGORIES	EXPENSES	PP&E
A. Implementation (M$ 7.0)		
Substation	$M 4.50	
Distribution equipment	$M 2.10	
Distribution planning training	$M 0.40	
B. Personnel (M$ 1.9)		
International personnel	$M 1.05	
National engineer / personnel	$M 0.85	
C. Operational costs ($M 1.8)		
Office running costs	$M 0.05	
Equipment		$M 0.07
Local transportation		$M 0.10
Supplies	$M 0.07	
DSA/expense for visitors	$M 0.06	
Miscellaneous	$M 0.05	
Subcontractors	$M 1.40	
D. Agency management support ($M 0.35)		
Administration	$M0.35	

Project Deliverables

Support to NIM Project Assets

Appendix B – Qualitative Materiality Considerations

The following analysis uses the criteria set forth by the SEC in Staff Accounting Bulletin No. 99. The attached includes all of their criteria for reviewing materiality for a quantitatively small misstatement but are relevant factors to determine in assessing the cap limit and have been answered from the perspective of whether the use of a higher cap limit would be misleading. The full list is below, although some do not have direct relevance to the public sector.

The issues were:

1. Whether the misstatement arises from an item capable of precise measurement or whether it arises from an estimate and, if so, the degree of imprecision inherent in the estimate

   Assessment: Not applicable. There is no error as the issue of the higher cap limit merely accelerates recognition of the expense associated with the item.

2. Whether the misstatement masks a change in earnings or other trends

   Assessment: The use of a higher cap limit would not materiality change the trend in income as, on a steady state basis, the expense would be the same regardless of the cap limit.

3. Whether the misstatement hides a failure to meet analysts' consensus expectations for the enterprise

   Assessment: As noted in 2, there would be no material difference to income.

4. Whether the misstatement changes a loss into income or vice versa

   Assessment: Not a relevant metric in the public sector.

5. Whether the misstatement concerns a segment or other portion of the registrant's business that has been identified as playing a significant role in the registrant's operations or profitability

   Assessment: Not likely to be relevant.

6. Whether the misstatement affects the registrant's compliance with regulatory requirements

   Assessment: The level of cap limit would not impact regulatory requirements.

7. Whether the misstatement affects the registrant's compliance with loan covenants or other contractual requirements

   Assessment: The level of cap limit would not impact compliance issues.

8. Whether the misstatement has the effect of increasing management's compensation – for example, by satisfying requirements for the award of bonuses or other forms of incentive compensation
   Assessment: The level of cap limit would not impact management's compensation.

9. Whether the misstatement involves concealment of an unlawful transaction.
   Assessment: Not applicable.