

Public sector asset management and accounting in Republic of Macedonia

Definition of property assets in the public sector

1. How your government defines public interest with regard to property assets?
 - All the natural resources of the Republic, the flora and fauna, the goods of public usage, as well as the items and works of particular cultural and historic significance determined by law represent the properties of public interest of the Republic of Macedonia and as such they are under special protection.
2. How this area is regulated?
 - Law on utilization and disposal of the state authorities' assets,
 - Budget Law,
 - Law on Accounting of the Budget and Budget users,
 - Rulebook on Accounting of the Budget and Budget users.
3. Do regulations impose any requirements or restrictions to the public sector property assets?
 - The regulations impose requirements related to the procedure for procurement, disposal, exchange and recording of the property assets. The manner in which the property assets are to be used is determined by the commander of the relevant state authority. According to the regulation the state authorities are responsible to keep and protect the property assets, to use them on an appropriate and economic manner and to timely execute all the responsibilities that arise from the usage of the property assets.

Ownership

1. Who is owner of property, such as, land and building used to deliver a direct service to the public (e.g. schools, elderly person's homes, health care institutions, libraries, highways and transport, water supply, waste water treatment plant and sewage system, social housing etc.)?
 - Central budget users (high schools, state universities, healthcare institutions, University library, highways and transport, social housing, elderly person's homes)
 - local self-government budget units (state kindergartens, primary schools, public enterprises, libraries..)

- public enterprises (water supply, waste water treatment plant and sewage system, electricity production, district heating, public transport...)
2. Support service delivery (e.g. town hall, local administrative offices, etc.) as well as
 - Local self-government budget users
 3. non-operational property (e.g. surplus property awaiting sale, assets under construction, industry property, shops on housing estates, markets, highway retail outlets)?
 - Central budget and local self-government budget units

Management

1. Who manages central government and local governmental property and the property of state?
 - The property assets which are used by the State authorities are disposed of by the Government of the Republic of Macedonia. They are managed by the commander, a person who manages the authority (budget user or budget unit user). The commander takes decisions on rental of the real estate, sale of assets, and exchange of assets. After such a decision is being taken, the Government of the Republic of Macedonia must be informed. In case, these kinds of decisions are taken by the commander of the unit user of the Budget of the Republic of Macedonia, the Government is informed through the commander of the Budget user from the same area. The whole procedure for execution of the decisions taken by the commanders is conducted by the Commission for disposal of property assets. This Commission constituted by the commander of the authority.
2. What is the role of local public agencies and other entities that provide public services?

All the local public agencies and other entities that provide public services, according to our legislation are called institutions. "Institution" represents any form of organization established for the purpose of performing public service, as an activity which is not defined as commercial activity and which by Law may be determined as a public interest activity. This definition suggests that the main role of the institutions is to provide public services. The public service is defined as an activity performed by the institutions in the field of education, science, culture, health, social security, children security, disablement security, and other activities which according to a Law can be determined as a public service. The institutions can be founded as public, mixed or private institutions.

Accounting

- How is property accounted for?
 - The property is accounted on cash basis. According to Republic of Macedonia Law on Accounting of the Budget and Budget users, all the revenues and other receipts, all the expenditures and other expenses in the general ledger should be recognized on a cash basis.
- Which accounting principles, standards and rules are in use for recording land and buildings, infrastructure assets, and other property assets?
 - The Budgets and the Budget users are obliged to carry out the accounting, to prepare and submit the financial statements in accordance with the provisions of Law on Accounting of the Budget and Budget users, the Rulebook for Accounting of the Budget and Budget users, International Accounting Standards for Public Sector, published in the Official Gazette of the Republic of Macedonia by the Minister of Finance (up until now only IPSAS 1 is being published) as well as in accordance with the generally accepted accounting practices.
- Are any differences in accounting standards and accounting rules in use for central government and local government estate, different services (e.g. education – school estate, highways and transportation, leisure and recreation, personal and social services, refuse collection and disposal and others), and property assets or buildings, and infrastructure?
 - In general there is no difference, the same standards and rules are to be used for central government and local government estate. There are some exceptions – the accounting of the Budget of the Republic of Macedonia and the accounting of the self-government budget units are not obliged to record the position of the property assets and any changes related to it, they are not obliged to provide any information on the position of the property, nor are they obliged to revalue the assets.
- How are property assets presented in the accounting books and financial statements of their owner and of institution (different legal entity) that has these assets in use or manage it?
 - Property assets are presented at their historical value. The historical value is consisted of the purchase price, increased by the value of import customs, value added tax, transportation expenses and all the other expenses which may be added directly to the historical value of the property, i.e. to the procurement expenses. In other words, the historical value is increased by the investments

related to outbuilding, reconstruction, adaptation etc, i.e. in cases when the function and the appropriation of the property is changed as a result of an investment. On the other hand, all the repairs, alterations, replacements, overhauls do not form part of the historical value, but they are presented as direct expenditure of the budget or the budget user.

- How assets are valuated (year intervals)?
 - The Budgets and the budget users (except from the Budget of the Republic of Macedonia and the self-government budget users) are obliged to conduct the reconciliation of their own receivables and liabilities and the position of their own assets and their sources, with the factual position determined during the inventory count, which is to be performed on 31 December each year. The manner in which the inventory count is to be carried out is promulgated by the Minister of Finance.

- How is fair value of infrastructure determined?
 - The Budgets and the budget users revalue their property only in case the annual inflation, measured as an increase in the prices of the producers of industrial products, is higher than 10%. The revaluation is performed annually, or it may be performed during the year for any investments in property, for the property out of use, for the sold or alienated property. The later is calculated on the basis of the coefficient determined by the State Statistics Office on the day of alienation. If during the financial year, some asset is called in or alienated its market value is determined on the basis of the commission judgment.
 - The basis for calculation of the revaluation is the historical value of the property. The revaluation is performed such that all the positions of the assets from the previous year are multiplied by the index of the cumulative increase (from the beginning till the end of the financial year) in prices of the producers of industrial products. What regards the assets purchased during the financial year, their value is multiplied by the index of the cumulative increase in prices of the producers of industrial products from the first day of the month following the month when the asset was purchased till the end of the financial year.

- Is regular revaluation necessary?
 - As it was previously mentioned, the revaluation is necessary only in case the annual inflation, measured as an increase in the prices of the producers of industrial products, is higher than 10%. It is not necessary to be calculated by the Budget of RM and local self-government budget users.

- How is surplus arising on the revaluation recognized and how deficit charged?

- The result of revaluation of property is transferred in favor or on charge of the sources of funds.
- What is value of the estate for financial reporting purposes?
 - The value of the estate for financial reporting purposes is the historic value of the asset (calculated as described previously) decreased by the value of the depreciation. It is also worth mentioning that the Budget of the Republic of Macedonia and the self-government budget units are not obliged to report on the position of their estate.
- Do assets presented on the annual accounts reflect symbolic, historical, open market or other value?
 - Taking into consideration that the assets are recorded and presented in their historical value, they reflect the historical value.
- Do accounts show the book value of property, which represents the replacement cost of assets given their current use or its market value?
 - The accounts show the book value of property which represents the replacement cost of assets given their current use, i.e, the historic value less the amount of depreciation, as well as any necessary corrections as a result of the revaluation.
- Are opportunity costs apparent?
 - NO
- How assets are depreciated, which methods are used and how expense for depreciation is covered?
 - Basis for calculation of the depreciation represents the historical value of the assets, as well as all the changes related to the asset which increase the value of the certain asset. The method used to depreciate the assets is the straight line depreciation which is consistently applied each financial year. The depreciation rates according to which the assets are depreciated are provided as an annex of the Rulebook for accounting of the Budget and Budget users. The depreciation period is determined in accordance with the depreciation rates. The depreciation is calculated separately for each asset which forms part of a group of assets, until the value of the assets is fully compensated, i.e. when the historical value of the assets becomes equal to the depreciated value.
 - What regards the period when the assets should be depreciated for the first time, there are some differences. For instance, the material assets are to be depreciated beginning from the first day of the month following the month when the asset was started to be used. What

regards the intangible assets, they are to be depreciated beginning from the first day of the month following the month when the asset was ready to be used.

- If the usage of a certain asset is being terminated, the calculation of the depreciation should not be terminated as well, nor should the depreciation be decreased in case the asset is used with a decreased capacity. As an exception of what was previously mentioned, the calculation of depreciation of material assets damaged as a result of the act of god (earthquakes, floods, fires, landslides etc) or as a result of a governmental measure to which cannot be affected, may be terminated or it may be temporary ceased while the asset is being repaired.

- The depreciation should not be calculated on:
 - a) land and forestry, for these are treated as natural resources which cannot be fully absorbed;
 - b) books in libraries, as well as, buildings and items which according to a certain law are promulgated to be of cultural, historical or artistic value;
 - c) local roads with earthen or macadam base, as well as the objects which form part of those roads;
 - d) buildings (except from apartments and apartment buildings) and equipment of the Army of the Republic of Macedonia, as well as the buildings (except from apartments and apartment buildings) and equipment which according to special provisions represent a reserve for the purposes of the defense and security of the Republic of Macedonia;
 - e) bottom array of the railway and other rails on the roads, airports, streets, squares, parks and other public places;
 - f) long-term assets until they are commenced to be used;
 - g) long-term assets that are permanently out of usage;
 - h) other long-term assets, whose length of usage is not determined

- Taking into consideration that the assets are recorded on a cash basis, the depreciation does not cause any expenses.

- Who is covering the loss in case that service based on use of public infrastructure does not generate sufficient revenues to cover all costs?
 - This loss is covered by the Government or the Local Self Government, depending on the institution suffering the loss.

Value Added Tax

1. How VAT is treated regarding capital investment in property and how is it recorded in accounting books?

- The state authorities, local self-government units and other public bodies are exempted from the obligation of payment of the Value Added Tax for the parts of their activities which are related to performance of the public functions, even if those activities generate revenues by collection of taxes by the tax payers. In case these bodies perform certain commercial activity which is to be taxed according to this law, they become tax payers only for those activities.

Resources for capital investment in property

1. Who and how finance acquiring of assets, replacement buildings, refurbishments, renovations, new constructions? Who provides funds for general repairs and for maintenance of infrastructure assets?
 - Mainly, the funds for property assets are provided from the Budget of the Republic of Macedonia. All the investments related to refurbishments, reconstruction, adaptation etc, which change the function and purpose of the assets, increase the historic value of the assets. For these kinds of expenses is charged the Budget of the Republic of Macedonia (direct expenditure).
 - In spite of these resources the assets, may be financed from funds received in form of donations and presents. Namely, the Republic of Macedonia, the state authorities and the representatives of the state authorities may receive presents, which after the receipt become property assets. If the origin of the present is not known, the Republic of Macedonia should not accept it. The receipt of the present must be accompanied by a statement for present, which is provided in an appropriate oral or written form. For the property assets obtained as a present, the Republic of Macedonia is exempted from tax payments

2. What rules create bases for capital investments (standards, norms, preparation of economic justification for repairs and maintenance, decision making, responsibilities)?
 - Mainly, basis for the capital investments represent the *strategy* of the Government of the Republic of Macedonia. The Government of the Republic of Macedonia determines the strategic priorities for the following year, latest at 15 April in the current year. These strategic priorities represent a collection of objectives and initiatives. Central government budget users as well as the budget users of the funds should compulsorily include the strategic priorities in their own budgets through governmental programmes and sub-programmes. The budget users prepare three year strategic plan, contained of programmes and activities through which the strategic priorities of the Government of the Republic of Macedonia, as well as the objectives and priorities of the certain budget user for the specified period, are to be achieved. All these documents form an integral part of the Budget of the Republic of Macedonia.

- In spite of the strategy of the Republic of Macedonia, as a basis for capital investments may be considered also the fiscal strategy. The fiscal strategy is prepared by the Ministry of Finance for a mid-term period, i.e. for the period of three years. Based on this fiscal strategy, the Ministry of Finance proposes to the Government of the Republic of Macedonia, the maximum amounts of approved resources for the next three years, broken down by central government budget users and budget users of the funds.
3. Who makes investment and disposal decisions? Are there any restrictions on use property disposal, does it require permission from any authority, are there any limits established by central government or local authority?
- The decision for procurement of the estates is taken by the Government of the Republic of Macedonia, on proposal of the authority for which purposes the estate is to be procured. The manner in which the procurement is to be conducted is determined by the Governmental Decision. In order to procure the certain assets, the authority intending to use the asset, firstly should have provided resources from the Budget. The proposal for procurement of the asset is to be submitted by the commander of the budget user. The procurement contract shall be concluded by the commander who proposes the procurement of the asset.
 - What regards the procurement of personalty, these kinds of assets are to be procured in accordance with the provisions of the Public Procurement Law.
 - The estates which were permanently set out of use by the relevant state authorities, may be disposed of. The final decision for the disposal of the estates is taken by the Government of the Republic of Macedonia, on a proposal of the authority which permanently stopped using them. This proposal is submitted by the commander of the budget user and it may be submitted only in case all the other state authorities do not need the estate in question. In the proposal is contained the disposal value of the estate as per the accounting records of the state authority using the estate. If this value is disproportionally low in comparison to the other kindred estates on the market, the disposal value of the estate to be disposed of shall be determined by the Government of the Republic of Macedonia, on a proposal of the Ministry of Finance – Public Revenue Office. The criteria and methodology according to which the Ministry of Finance determines the disposal value of the estate is defined by the Government of the Republic of Macedonia. The procedure for disposal of the estate may be executed either as a public bidding, or as a direct bargain.

- The procedure for disposal of personalty is more or less the same as that one for disposal of estates. There is one difference which is related to the disposal value of personalty. Namely, when the accounting value of the personalty is disproportionately low in comparison to the other kindred personalty on the market, the disposal value is to be determined by an authorized assessor. Another very important difference is that the final decision for the disposal of the personalty is taken by the commander of the budget user or the budget user unit that uses the personalty.