

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

Policy Number 17 - Capital Asset Accounting

I. Purpose. This policy addresses capital asset accounting for Northern Virginia Transportation Authority's (NVTA) administrative assets. In order to assure the accurate recording and control of administrative assets, capital asset acquisitions must be classified and capitalized in a consistent manner, and periodic physical inventories must be taken.

II. Capitalization Guidelines.

A. To qualify as a "Capital Asset" the asset must have an economic useful life of more than one year and an installed cost in excess of \$5,000. The total costs of acquiring and placing an asset in operation are capitalized. Such costs include purchase price (net of discount), freight and any installation costs.

B. Qualified capital assets should be classified and recorded in major office furniture and fixture categories. Asset classifications may include the following:

1. Office Furniture. Desks, chairs, credenzas, conference tables, bookcases, etc.
2. Office Equipment. Copier, telephone, postage meter, refrigerator, projector, etc.
3. Computer Equipment. Laptop computers, desktop computers, servers, processors, monitors, printers, software, etc.
4. Leasehold Improvements (Fixtures). Improvements to the leased offices occupied by the NVTA.

C. Betterments, while generally not applicable to administrative assets, may be capitalized if the expenditure materially increases the value of the asset and/or extends the economic life of the asset beyond the originally estimated life.

III. Equipment Replacement Reserve

A. Effective FY2017, the NVTA established an Equipment Replacement Reserve within the Operating Fund to ensure funds are available for capital asset replacement. The contribution to the reserve will be determined during the annual budget process.

B. This reserve was implemented as virtually all of the NVTA's capital assets were purchased and placed in service at the same time. Replacing a major portion of these capital assets at one-time would cause undue stress on the operating budget. This reserve is designed to provide funding for necessary replacements over time and to avoid large one-time operating budget spikes.

- C. Expenditures considered repairs and maintenance are classified as operating costs and are chargeable to an expense account as incurred. Maintenance costs are the normal expenditures associated with keeping property in an efficient operating condition. Repair costs are incurred because of damage to assets or impairment due to normal use. Normally those costs are incurred to maintain or restore an asset to an operable condition without increasing its expected useful life or productive capacity.
- D. Capital asset expenditures will be charged against the Equipment Replacement Reserve as needed to replace outdated and/or non-operational capital assets only, once approved by the Chief Financial Officer.

IV. Depreciation and Amortization Guidelines.

- A. Depreciation and amortization of capitalized “in-service” assets must be recorded annually. The calculation of this expense will commence with the first full month the asset is placed in service.
- B. Depreciation expense is calculated on a straight-line basis over the estimated useful life of the asset and subtotaled by Asset Category. The entire asset cost will be depreciated, without regard to any anticipated residual value. Depreciable or “useful” lives must be reviewed periodically for continuing applicability.
- C. **Chart.** Depreciable or Useful Life of Assets.

Asset Category	Useful Life (yrs)
Cell Phones	2
Computer Hardware & Peripherals	4
Office Furniture	7-10
Office Equipment	5-10
Leasehold Improvements	Life of the lease

- D. Each capital asset must be entered on a capital asset Excel Schedule to facilitate the calculation of depreciation. The asset schedule includes the acquisition date, capitalized cost, the annual depreciation and the Total Accumulated Depreciation. This schedule must be reconciled to the general ledger control account on an annual basis.

V. Annual Capital Asset Inventory.

As a key control in the protective custody of property, a physical inventory will be taken annually by the NVTAs Administrative Assistant/Clerk. Each capital asset will be observed and its operating condition evaluated. Adjustments to the inventory for lost or damaged assets must be approved by the Chief Financial Officer.

VI. Disposal of Capital Assets.

- A.** Capital assets may be disposed of in a sale, retirement, recycling or replacement transactions. Approval must be granted by the Chief Financial Officer before an asset can be disposed. Disposals are accounted for by crediting the asset account for the original cost of the asset, charging accumulated depreciation for the depreciation expensed to date, and recognizing any gain or loss on disposal of the asset. Approval from the Executive Director must be obtained to write off any asset due to loss or damage.

- B.** Proceeds received upon the sale of an asset should be recorded and controlled in the same manner as all other receipts. The Assistant Finance Officer must record the disposal on the Capital Asset Excel Spreadsheet.

Approved by the Finance Committee: December 5, 2014

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