

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

MEMORANDUM

TO: Chairman Martin E. Nohe and Members
Northern Virginia Transportation Authority

FROM: Mayor Parrish, Chairman, Finance Committee

DATE: June 2, 2017

SUBJECT: Revisions to Policy 17 – Capital Asset Accounting

- I. **Purpose.** To seek Northern Virginia Transportation Authority (NVTA) approval of revisions to Policy 17 – Capital Asset Accounting. The proposed revisions to this policy account for the FY2017 establishment of an Equipment Replacement Reserve within the Operating Fund.
- II. **Suggested Motion.** *I move Authority approval of the revisions to Policy 17 – Capital Asset Accounting.*
- III. **Background.**
 - a. As part of the FY2017 Operating Budget the Authority established a reserve for the replacement of equipment, furnishings and fixtures.
 - b. This reserve recognizes that almost all of the Authority's equipment, furnishings and fixtures were purchased and placed in service at the same time.
 - c. The reserve is designed to provide funding for necessary replacements over time and avoid large one time operating budget spikes.
 - d. The policy revisions note the reserve level and annual contribution will be evaluated as part of the annual operating budget process.
 - e. The policy revisions note the reserve is to only be used to replace existing outdated or non-operational equipment, furniture and fixtures. This prevents the use of the reserve to expand capital assets.
 - f. The Northern Virginia Regional Commission has agreed to the shared use of their Geographic Information System (GIS) Plotter as part of a cost savings/avoidance strategy for both parties.
 - g. It is expected that the Authority will become the predominate user of the plotter and will therefore cause substantial wear on the equipment.
 - h. As part of future Authority Operating Budgets, capitalization of the replacement of the GIS plotter will be included.
 - i. Minor clarifications and updates were included in the proposed changes.

Attachments: Policy 17 – Capital Asset Accounting (With Draft Revisions Marked)

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, 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 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.

A-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 ~~as a result~~ 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.

III.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 NVTA’s 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 sold or retired 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 by the Accountant in the same manner as all other receipts. The Accountant Assistant Finance Officer must record the disposal on the Capital Asset Excel Spreadsheet.

Approved by the Finance Committee: December 5, 2014

Approved by Northern Virginia Transportation Authority: December 11, 2014

Revision Approved by the Finance Committee: May 18, 2017

Revision Approved by Northern Virginia Transportation Authority: