FIXED ASSETS ACCOUNTABILITY

ATI-0004-2015

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**PUERTO RICO INTEGRATED TRANSIT AUTHORITY
(PRITA)**

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		Regulation Number or Procedure:	**ATI-0004-2015**
	DEPARTAMENTO DE TRANSPORTACIÓN Y OBRAS PÚBLICAS **PUERTO RICO INTEGRATED TRANSIT AUTHORITY (PRITA)**		
Title regulation or procedure: **FIXED ASSETS ACCOUNTABILITY**		*Approved by:* **Alberto M. Figueroa Medina, PhD, PE,** Executive Director	*Validate By:* **Juan A. Vázquez Acevedo,** Chief Financial Officer
Date of Revision: 17th of December, 2015	*Work Unit:* **Administration and Finance**	*Date of approval by the Board of Directors:* **12-17-2015**	*Notes:*

1 Purpose

The purpose of these desk procedures is to provide guidance on the processing of Fixed Assets for the Authority. These procedures support the regulatory provisions of the Governmental Accounting Standards Board (GASB) and the regulations and guidance (circulars and bulletins) issued by the U.S. Department of Transportation (DOT) – Federal Transit Administration (FTA), the Office of Management and Budget (OMB), other Federal agencies, the enabling Act of the Authority, as amended, and the laws and regulations of the Commonwealth of Puerto Rico. The ultimate intent of these procedures is to ensure that the internal control environments over Fixed Asset processes are effective, promotes efficiency, and is transparent to the Authority's internal management and to its external customers. Additionally, these procedures are to provide the actions and methods for processing and handling all transactions relating to fixed assets.

2 Background

The Authority is responsible for the creation of capital and operating budgets. These budgets include projects that the Authority will undertake in the future. After the Authority's budget is approved by the Federal and applicable State authorities it will implement the actual capital project based upon established milestones. The Fixed Assets process begins at the time when goods, buildings or real property are purchased and received or are being constructed. These internal controls included in the Fixed Assets process are supported by the Authority's grant management system and general ledger and should be sufficient enough to account for the Sources and Uses of all Federal and Non-Federal Funds.

3 Objective

- To ensure that the Authority's fixed assets are adequately controlled, tracked, reported and maintained.

- **Specifically, to ensure that:**
  - Controls are adequate to guarantee that only charges appropriate are capitalized as fixed assets.
  - Controls are adequate to make certain that all fixed assets acquired are recorded in an accurate, complete and timely manner in the detail property records of the Authority.
  - Controls are adequate to guarantee that fixed assets are safeguarded and utilized for their intended grant-appropriate purpose.
  - Controls are in place to guarantee that procedures for fixed asset disposals are followed, including, adjusting the fixed asset records and remitting to the grantor its share of any proceeds resulting from the disposal.
  - The Authority has adequate procedures to maintain its grant-funded fixed assets in serviceable condition.
  - The Authority has an adequate process for evaluating its insurance risks related to its grant-funded fixed assets.
  - Provide for adequate physical identification of the component units of fix assets including, among other information, identification number, description, location and office responsible for its use and custody.
  - A physical inventory the Authority´s fixed assets has to be prepared to account for the value of the items acquired, their costs, book value and other pertinent date.

4 Scope and Applicability

The scope of these additional recommended procedures will address the specifics steps required to ensure:

4.1 Accounting Considerations

The accounting department is charged with keeping complete, accurate and timely records of the Authority's fixed assets for financial and regulatory reporting. This requires the Authority to properly classify and record fixed asset data in a consistent and uniform manner. The list of accounting issues that is addressed in this fixed asset procedure manual includes:

- The Authority's definition of the various types of fixed assets. For example, an asset used in the production of goods and services, not part of inventory for resale, useful life greater than 1 year.
- Dollar threshold for capitalizing versus expensing fixed assets.
- Requirements for fixed asset depreciation software in terms of maximum number of assets, single vs. multi-company, specific reporting requirements, etc.
- Classification of fixed assets guidelines.

- The depreciation method(s) that are to be applied under various circumstances.
- The Authority's method for depreciating assets at book basis.
- Determining the cost basis for fixed assets and the values to consider.
- The criteria used to determine the useful life for fixed assets.
- The Authority's approach to estimate salvage value when calculating depreciation.

The dollar threshold for fixed assets capitalization is established as five hundred (500) dollars. Any item whose cost falls below such amounts will be charged to the corresponding expense account.

With respect to depreciation rates, the Authority will comply with applicable Federal regulations and with recommendations received from its external independent auditors.

4.2 Inventory and Asset Control

Fixed assets can deteriorate over time since they are subject to wear and tear in the normal course of their use. An asset value will be deteriorated and may render it unusable for its intended purpose if above normal deterioration or wear occurs. Fixed assets can be in the Authority's facility, in transit (rolling stock), relocated to the Authority's facility or at another location. Assets that are not accounted for represent a potential loss of value and a reduction in productive capacity that might be needed in the future. A potential loss exists when assets are not accounted for. A reduction in productive capacity might be needed if a potential loss or loss of value exists.

This fixed asset manual inventory and control elements will aid in preserving the utility and value of the Authority's fixed assets. The key matters include:

- Fixed asset purchase instructions for assets that require special handling or other special attention such as items that are extremely valuable, hazardous, fragile, and highly sensitive or require security.
- The fixed asset information that is required to be collected for identification and inventory purposes.
- The fixed asset types that require tagging and the information to be included on the tag.
- The general maintenance requirements for the various classes of fixed assets.
- The Authority's warranty and maintenance agreement compliance requirements.
- Relocating or transferring of fixed assets and the required authorizations.
- The Authority's required frequency and type of physical inventories of fixed assets and parties responsible for performing them.
- The Authority's methodology to properly dispose of a fixed asset.
- The physical safeguarding of fixed assets.

These procedures will also include underlying guidance on adequate segregation of duties related to the fixed asset processes.

5 Procedures

In this section and following subsections the various stages of fixed assets life cycle and related Authority's responsibilities will be described. The Fixed Asset life stages that will be described include additions, fixed asset system requirements, recording transactions, depreciating the asset, insurance, safeguarding fixed assets, obsolesce, sale of fixed asset, loss / stolen of fixed asset and cannibalization.

5.1 Fixed Asset Additions

5.2 Overview of the Purchase Order Process

- A capital and operational Budget prepared and adopted by the Authority.
- An Authority employee submits requisition.
  (General Ledger Account Number / Grant Number – Identified)
- The requisition is entered in the purchase system.
- The requisition in the system is approved.
- The requisition is subjected to the Authority's competitive bidding process / contract / purchase order awarded.
- A new vendor is created or a previously approved vendor is selected.
- A Purchase Order (PO) is created in the system.
- Goods are received or Services have been provided.
- The receiving report is entered in the system.
- Invoices are received and screened, and then invoices are sent for approval.
- The invoice approvals are received then invoices are posted in the accounting system. *(General Ledger Account Number / Grant Number – Verified)*
- The two way match (for services) or three way match (for goods) is performed as necessary.
  (Blanket P.O.'s may not require a three way match to pay invoices).
- The accountant proceeds with payment of invoices.
  (See Accounts Payable Procedures & Procurement Procedures for further detail.)

5.3 Creating a New Fixed Asset Record

At the time a new fixed asset is received a new record is created for the asset and the next sequential asset record number should be assigned to it. If being recorded in a computer system, the software will assign the record number. If not, the person responsible for maintaining the fixed asset records will assign the record number.

All of the following Fixed Asset information should be maintained in the Fixed Asset System:

- Purchase Order Number
- Cost Center
- Location*
- Grant Number*
- Grant Description*
- Project Number*
- Project Description*
- Asset Class
- Tag Number *
- Asset Description*
- Acquisition Date*
- In Service Date
- Depreciation Method
- Useful Life of the Asset*
- Acquired Value *
- Federal Share *
- Non-Federal Share
- Current Depreciation
- Accumulated Depreciation
- Who Holds Title of Asset*
- Current Condition*
- Custodian
- Salvage Value
- Disposition Data*

The table below can be used to document information for the fixed asset system.
** - Denotes FTA required information.*

Tag Number	Purchase Order Number	Acquisition Date*	Asset Description*	Asset Class	Grant Number*	Grant Description*	Asset Location	In Service Date	Depreciation Method	Useful Life*
10000										
10001										
10002										
10003										
10004										
10005										
10006										
10007										
10008										
10009										
10010										
10011										

Tag Number	Acquired Value (Cost)*	Salvage Value	Federal Share*	Current Depreciation	Accumulated Depreciation	Net Book Value	Who Holds Title of Asset*	Custodian	Current Condition*	Disposition Data*
10000										
10001										
10002										
10003										
10004										
10005										
10006										
10007										
10008										
10009										
10010										
10011										

Once all information for a fixed asset is collected it should be timely inputted into the fixed asset system. The fixed asset record must be stored. It should be stored by asset class and then by record number in the fixed asset record files and the fixed asset sub system.

Separate records for buildings contain such data as: (1) date of construction or acquisition; (2) location; (3) source of funds (federal, state, etc.); (4) date, nature and cost of significant alterations or structural changes that increase the usefulness, efficiency or asset life of existing buildings; and (5) date, depreciation and value of deletions reducing recorded costs. In order to simplify and strengthen controls, the Authority will implement specific guides for the accountability, acquisition; recording, custody and disposal of fixed assets such as land buildings and any other real estate item. As additions or deletions are made to existing buildings, cost and other appropriate data will be entered to update the fixed assets sub system.

5.4 Fixed Asset Forms

The Authority should use forms (manual or electronic) to document and monitor additions, transfers, losses and dispositions. A description of the various forms and use is as follows:

Additions – The Fixed Asset Addition Form should be completed for assets donated or purchased with a unit cost greater than the Authority's policy stated fixed asset floor amount. If new assets are received from a donation, the Fair Value Measurement (FMV) at the date of receipt should be used as asset cost. This form should be submitted to the Fixed Asset - Finance Department. Asset tags will be assigned and distributed for these assets. After review and approval by a supervisor level person in the Fixed Asset - Finance Department, the addition is entered into the fixed asset system. Fixed Asset documents should be filed both electronically and hardcopy as applicable in the fixed asset system. The Fixed Asset documents should be retained according to the Authority's record retention policy.

Transfers – The Transfer of Fixed Assets Form should be completed when assets are transferred between sites. The form should be approved and signed by a supervisor level person in the sending and receiving locations. The sending and receiving locations keep copies for their records and a copy is sent to the Fixed Asset - Finance Department. The Fixed Asset - Finance Department reviews new Fixed Asset Transfer form information for approvals, sending and receiving acknowledgements and required fixed asset information. After review and approval by a supervisor level person in the Fixed Asset - Finance Department, the transfer is entered into the fixed asset system.
It may be necessary to obtain specific grantor approval prior to the transfer of federal or grant funded assets when it is determined that the fixed asset is no longer needed for the original grant purpose. Guidelines for the transfer of grant funded assets, are outlined in the Office of Management and Budget (OMB) Circular A-102, Circular A-87 and 49 CFR Part 18.

Losses - The Property Loss Statement Form should be completed and submitted to the loss prevention department for all types of property loss. If tagged assets are lost or damaged, a copy of the form should also be submitted to Fixed Asset - Finance Department. After review and approval by a supervisor level person in the Fixed Asset - Finance Department, the property loss is entered into the fixed asset system. Journal Entry in Appendices

In compliance with Act No. 96 of 1964, as amended, all suspicious cases of fixed assets losses must be reported by the Finance Officer to the Office of the Controller of Puerto Rico and the Secretary of Justice. The Human Resources Department and the Legal Office will determine any legal of administrative action to be taken against the responsible employee when applicable. A complete record of each case must be kept by the General Auditor custody for further examination by external auditors including examiners from the Office of the Controller of Puerto Rico.

Dispositions - The Equipment Disposition Request Form should be completed when disposing of assets. When disposing of Federal equipment purchased it should be clearly indicated on the Equipment Disposition Request Form to prompt involved departments to insure that the disposition is completed in compliance with federal requirements. Approvals are needed before asset disposition can take place. The reason for the asset disposition (ex. end of useful life, obsolescence, etc.) must be documented. Asset must be properly identified and its condition at the time of disposition noted. The description should include the asset number, make, model, serial number, location and other details specific to the asset. The Authority's method of disposal Sale, Scrap, etc. must be documented in the asset file. The date of disposal and sale price of the property must be documented in the asset file.

Senior level management approval is needed to change, add or cease the use of existing fixed asset forms. A supervisory-level employee reviews new Fixed Asset information entered into the fixed asset system.

5.5 Asset Valuation

When new assets are received from a donation, the FMV at the date of receipt should be used as asset cost. Asset Values are determined using the following processes (how asset costs are established).

FMV - A fair value measurement assumes that the asset is exchanged in an orderly transaction between market participants to sell the asset at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets; it is not a forced transaction (for example, a forced liquidation or distress sale). The transaction to sell the asset is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset at the measurement date. The market price used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs represent the incremental direct costs to sell the asset in the market. Transaction costs are not an attribute of the asset rather; they are specific to the transaction and will differ depending on how the reporting authority conducts the transaction.

In determining whether a transaction price represents the fair value of the asset at initial recognition, the Authority's reporting entity shall consider factors specific to the transaction and the asset. For example, a transaction price might not represent the fair value of an asset at initial recognition if:

- The transaction is between related parties.
- The transaction occurs under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.
- The unit of account represented by the transaction price is different from the unit of account for the asset measured at fair value. For example, that might be the case if the asset measured at fair value is only one of the elements in the transaction, the transaction

includes unstated rights and privileges that should be separately measured, or the transaction price includes transaction costs.

- The market in which the transaction occurs is different from the market in which the Authority's reporting entity would sell the asset or transfer the liability, that is, the principal or most advantageous market. For example, those markets might be different if the Authority's reporting entity transacts in different markets, depending on whether the counterparty is a retail customer (retail market) or a dealer (wholesale market)

Valuation Techniques

Valuation techniques consistent with the market approach, income approach, and/or cost approach shall be used to measure fair value. Key aspects of those approaches are summarized below:

- *Market approach.* The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets.

- *Income approach*. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts.

- *Cost approach.* The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost). From the perspective of a seller, the price that would be received for the asset is determined based on the cost to buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence.

- *Historical cost.* The Authority would record and account for most assets and liabilities at their purchase or acquisition price.

- *Replacement cost* - The replacement cost of an asset values the asset at the amount needed to replace it with an identical asset. (*If the Authority is valuing an asset for insurance purposes, it might have to choose between replacement cost and actual cash value. The actual cash value refers to the fair market value of the asset in its current condition*).

- *Net realizable value*. The sale price of the asset minus the cost of making the sale.

- *Economic value.* The maximum amount a consumer is willing to pay for an item in a free market economy.

Any valuation technique that requires the services of expertise in such techniques must be performed by a certified appraiser authorized by the Commonwealth of Puerto Rico.

5.6 Spare Parts

5.6.1 Spare Parts Inventory Recording System

The Authority must have a process to track Spare Parts Inventory. The inventory system should be a GAAP inventory method. The perpetual system using First-in First-Out (FIFO) as described below is usually preferred. The objective of spare parts management is to ensure the availability of spares for maintenance and repairs of the plant and machinery as and when required at an optimum cost. Also, the spares should be of right quality. There are many actions required to ensure the spare parts management is effective.

Inventory is added to the spare parts inventory system when received. The receiving report is matched to the purchase order (See the Accounts Payable Procedures) before entering the parts into the spare parts inventory system. Inventory is removed from the spare parts inventory system when used. The spare parts inventory usage process is as follows:

- Vehicle inspections are performed and mileage is recorded.
- Vehicle manufacturer suggested maintenance schedule is referenced.
- Work order is prepared based on mileage and manufacturer maintenance schedule.
- Work order is approved by supervisory level employee in the maintenance department.
- Check for part availability, including quantity in stock, on hold, on order, in transit, and in quality inspection. If the part is in stock, you can then determine its location. If the part is on order, you can determine the estimated time of arrival.
- Parts are then picked up / ordered at the spare parts area.
- All parts on the work order are received by the maintenance technician.
- Vehicle maintenance work is performed.
- Vehicle maintenance Log is updated.
- Vehicle maintenance Work and Maintenance Log are then reviewed by supervisory level employee in the maintenance department.

(See the Maintenance Procedures for details)

5.6.2 Inventory Cycle Counts Are Performed To Maintain the Accuracy of the Inventory

Inventory Cycle counts should be performed. Cycle counting is the process of counting Spare Parts inventory items throughout the year on a schedule so that all items are counted at least once a year. The primary focus is on items that move more frequently, with less attention given to items that move less frequently. The Authority should utilize employees that are familiar with inventory and warehouse locations, and can uncover processes that produce inventory inaccuracies. Cycle counters perform counts of Spare Parts and record the information. This count is then checked, based on the actual record, to see if there is a discrepancy between the two counts. A tolerance level is used to see how much above or below the actual count is when compared to the record count. This tolerance level is low for fast-moving items and higher for slower moving items. When a count is taken that is outside of the tolerance level, the Authority will perform an examination to understand the root cause of the error so that the source of the error can be eliminated.

The Authority will assign a count frequency based on an inventory ABC analysis. ABC analysis is a method of assigning and classifying spare parts. For the cycle counting procedure, spare parts are ranked from highest to lowest based on the annual usage at cost. The idea behind this ranking is based on the 80/20 rule, where 80% of the volume in the inventory comes from only 20% of the spare parts. Table B is an example of an ABC analysis. "A" items account for the top 80% of usage, while "B" items account for the next 15% of usage, and "C" items account for the last 5% of usage. Typically, more than half of the items are "C" items. Understanding this analysis shows that 80% of volume comes from a very small percentage of items.

The Authority should perform a cycle count when the inventory is at its lowest level, i.e., a reorder is indicated. This is when the inventory is at its lowest level, it will be quicker to count, and it minimizes room for errors. Some guidelines as to when a cycle count should be performed are:

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- When a replenishment order is received.
- When the actual inventory record has a zero or negative balance.
- When a reorder is indicated.
- After every "X" number of transactions.

Table B: ABC ranking and classification example is shown on the following table:

Item Number	Item SKU Number	Cummulative Percent of Items	Last Unit Cost	Quantity On Hand	Inventory Dollars	Annual Unit Usage	Annual Usage Dollars	Percent of Total Sales	Cummulative Percent of Total Usage	ABC
1	1029852300	5.34%	$ 56.00	5943	$ 332,808	44,987	$ 2,519,272	9.59%	11.43%	A
2	1000486500	8.49%	$ 27.40	17934	$ 491,392	164,956	$ 4,519,794	14.23%	14.73%	A
3	1004843543	2.74%	$ 36.70	6390	$ 234,513	57,392	$ 2,106,286	4.67%	12.21%	A
4	1028390066	3.89%	$ 17.40	4456	$ 77,534	58,454	$ 1,017,100	6.54%	8.59%	B
5	1028380086	0.78%	$ 22.40	167	$ 3,741	1,234	$ 27,642	0.62%	0.56%	C
6	1028384407	5.83%	$ 19.00	2224	$ 42,256	90,432	$ 1,718,208	7.53%	0.67%	C
7	1029063320	2.64%	$ 44.00	3456	$ 152,064	76,543	$ 3,367,892	11.38%	13.34%	A

5.6.3 The following steps are required for a successful cycle counting program:

- Data entry on all inventory transactions should be completed to fully update the inventory database.

- Print a cycle counting report, which states the shelf or bin locations that are to be counted, and assign it to the cycle counting staff.
- The cycle counters compare the locations, descriptions, and quantities stated on the report to what they see on the shelf or in the bin. They also trace what they see on the shelf or in the bin back to the report, in case some items have not been recorded within the database at all.
- Investigate all differences found.
- Adjust the Spare Parts system and General Ledger as necessary.

Quarterly spare parts inventory activity reports are printed. Copies of the quarterly spare parts inventory activity reports are provided to the accounting department responsible for the general ledger. The General Ledger is adjusted to actual as necessary via journal entry. Annually, the spare parts inventory system and/or the spare parts general ledger account is adjusted as necessary.

Physical Inventories of fixed assets acquired with Federal or State grant funds may be required to be made at least biannually (ex. FTA grant funded assets). Inventory results will be conveyed to the Chief Financial Officer and Program Manager along with sufficient information to file any reports or closing reports, as necessary.

5.6.4 Inventory System Types

- *Perpetual Inventory System* – The Authority would continually update its inventory records to account for additions to and subtractions from inventory for such activities as:
  - Received inventory items
  - Items moved from one location to another
  - Items picked from inventory for use in the maintenance process
  - Items scrapped

- *Periodic Inventory System* – The Authority would only update the ending inventory balance in the general ledger when a physical inventory count is done. The inventory account in the accounting system continues to show the cost of the inventory that was recorded as of the last physical inventory count. All purchases made between physical inventory counts are recorded in a purchases account. When a physical inventory count is done, you then shift the balance in the purchases account into the inventory account, which in turn is adjusted to match the cost of the ending inventory.

  - The calculation of the cost of goods sold/used under the periodic inventory system is:

    — Beginning inventory + Purchases = Cost of goods available for sale/use; and
    — Cost of goods available for sale/use – Ending inventory = Cost of goods sold/used.

5.6.5 Spare Parts Inventory Valuation Methods

- *First-in First-Out (FIFO)* - The earliest goods purchased are the first ones removed from the inventory account. This results in the remaining items in inventory being accounted for at the most recently incurred costs, so that the inventory asset recorded on the balance sheet contains costs quite close to the most recent costs that could be obtained in the marketplace.

- *Last-in First-out (LIFO)* - The last item of inventory purchased is the first one sold. In this method, value of the inventory at the end of an accounting period is based on the value of items purchased earliest.

- *Moving Average Method* – The average cost of each inventory item in stock must be re-calculated after every inventory purchase. The calculation is the total cost of the items purchased divided by the number of items in stock. The cost of ending inventory and the cost of goods sold are then set at this average cost. The moving average cost changes whenever there is a new purchase.

- *Weighted Average Method* – An inventory costing method that assigns average costs to each piece of inventory when it is sold / used during the year.

- *Dollar Value LIFO* - Goods are combined into pools and all increases and decreases in a pool are measured in terms of total dollar value. The pools created under this method are, therefore, known as dollar-value LIFO pools.

Additions and updated fixed asset information are prepared by the employee responsible for maintaining the fixed asset system (ex. fixed asset accountant) and approved by the supervisory-level employee (ex. accounting manager).

5.7 Asset Tagging:

5.7.1 Reason to Tagging

- To establish and aid in maintaining the Fixed Asset Master File.
- To identify assets as belonging to the Authority. In order to maintain accurate asset records, when receiving a new asset it must first be determined if it should receive a tag.
- Any item whose cost exceeds the Authority's policy stated fixed asset floor amount (and certain items regardless of cost) and has a life greater than one year should be labeled. Once an asset has been tagged, it needs to be recorded in the Fixed Asset system for tracking purposes.

5.7.2 What to Tag

- Furniture and equipment items with a replacement value above $1,000, including, but not limited to:

  - o Furniture, Computers and Laptops, Audio Visual Equipment, Other equipment above the Authority's policy stated fixed asset floor amount such as kitchen, health and fitness, or office machines, tools and machinery.
  - o Additional items to tag (or track using a unique identifier. Ex. serial number) regardless of their value, include controlled items such as overhead projectors, printers, televisions, VCR's, video cameras, digital cameras, fax machines, hand-held computers, two-way radios, and any item that may be easily stolen. Controlled Assets are assets that are sensitive, portable, or prone to theft.

5.7.3 When to Tag

- All capital assets, except for infrastructure assets and intangible assets, must be tagged upon receipt or otherwise identified as the Authority's property.

5.7.4 When not to Tag

- When impractical or impossible. Reasons not to mark are, but are not limited to, when the item: Has a unique, permanent serial number usable for identification, security, and inventory control (such as vehicles); would lose significant historical or resale value if marked; and, would have its warranty negatively impacted if permanently marked. If no tag was used, enter "No Tag."

5.8 Authorization of Users access to Fixed Asset System

Access to the Fixed Asset System should be restricted to authorized users to ensure all changes made to the asset register are authorized. Fixed Asset System users should be granted access by a supervisory level employee in charge of the fixed asset function. Fixed Asset System users should be documented and access should be reviewed quarterly. When employees no longer have responsibilities related to the fixed asset function or have been terminated their Fixed Asset System access should be immediately restricted.

5.9 Fixed Asset Classes

Classes of Assets

- *Real Property*
  - o Land
  - o Building
  - o Improvements other than buildings
- *Personal Property*
  - o Vehicles

  - Vessels
  - Equipment
  - Furniture
  - Computers
- Construction in Process

Real Property

Land - All land recorded at the amount paid, including all costs such as:

- Original contract price
- Brokers' commissions
- Appraisal fees
- Legal fees for examining and recording title
- Cost of title guarantee insurance policies
- Cost of real estate surveys
- Cost of an option when it is exercised
- Special paving assessments
- Cost of excavation, grading or filling of land and razing of an old building
- Payment of environmental fees
- Cost of cancellation of unexpired lease
- Payment of noncurrent taxes accrued on the land at date of purchase, if payable by purchaser

Buildings - All structures used for operating purposes. Included are all permanently attached fixtures, including machinery, and other components that cannot be removed without damaging the building. If a component can be removed without damaging the building, it is considered equipment and should not be included in the value of the building.

All direct costs of construction are applied to a building's value. Significant structural changes to a building that increases the building's usefulness, efficiency or asset life also should be accounted for and added to its value.

Building costs include, but are not limited to, the following:

- Original contract price of cost of construction;
- Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it available for the purpose for which it was acquired;
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.;
- Cost of building permits;
- Payment of noncurrent taxes accrued on the building at date of purchase, if payable by purchaser;
- Architects' and engineers' fees for design and supervision; and
- Costs of temporary buildings used during the construction period.

Improvements other than buildings - Manual records document the transactions for acquisition or construction of improvements other than buildings. Cost information and other relative data for improvements such as landscaping, park and ride lots, parking lots, sidewalks, curbs, utility systems, flagpoles, fences and other similar improvements should be maintained by the Authority. Depreciation will be recorded over a useful life years under the straight-line method. The valuation method is the same for buildings.

Personal property - Personal property includes all fixed assets that are not real property, also known as "movable property", "movables" and "chattels." The value of personal property is purchase price and other costs associated to making the property suitable for its intended purpose, such as licensing fees, signage, accessories, freight, etc.

Equipment - Capital equipment includes all personal property having (1) an acquisition value of the Authority's policy stated fixed asset floor amount or more per unit, except for certain property that is considered part of a component of computers if their cost basis is less than the Authority's policy stated fixed asset floor amount; and (2) an expected useful life in excess of more than one year. This period will vary depending upon the fixed asset's class. For example, items classified as furniture and fixtures will have an expected useful life of 12 years, whereas, computer equipment will be 3 years.

If the above conditions are met, items will be capitalized and depreciated. Property that fails to meet any one of these tests but has a unit cost basis of more than $500.00 in accordance with the Authority's policy stated fixed asset floor amount; the Authority's property decal should be placed on the asset and department heads will be held accountable for protecting the item (controllable items).

Construction in Progress - (see also Project Management procedures) – The Authority will use a Construction in Progress temporary account for the recording of architect and engineering fees, labor, materials, and equipment to later be capitalized to a construction project. A file is maintained for each project, which includes all relevant invoices until completion of the project. A unique project number identifies all costs related to the project. The Accounting department assigns the project number to be used for each project. The person / department in charge of the project are responsible for confirming the invoices for payment and coding the invoice to the appropriate project number when the requisition and purchase order is created. The costs accumulated in the Construction in Progress temporary account are not depreciated.

When the project is completed, costs in the construction-in-progress account are reclassified into one or more of the other major asset classes of land, buildings, infrastructure or equipment. The costs reclassified from the Construction in Progress temporary account to the major asset classes will then be depreciated. Construction-in-progress is recorded both for the financial statements and accounting systems. The costs included in construction in progress are the total project to date expenditures together with related accounts payable, insurance premiums, interest and other related costs.

5.10 Recording Depreciation

Asset depreciation reports includes asset cost, accumulated depreciation, and useful life, salvage value and depreciation method. The accounting department performs the fixed asset reconciliation and upon approval, records the depreciation entry. *(See Month End Close procedures and also see Appendices for depreciation journal entry).* The Authority will use depreciation rates in accordance with federal regulations and/or its external and independent auditors.

Book Value Maintenance

The book value of assets is maintained by accurately recording the asset cost, and timely accumulating depreciation under the appropriate depreciation method. The net of the asset cost and accumulated depreciation provides the asset book value.

Changes in the value of an asset can cause either an increase or decrease in the fair market value of an asset. GAAP does not allow upward revaluation of fixed assets to reflect fair market values. FASB Statement No. 144 provides guidance for the write-down of an asset. One of the main reasons for the write-down of an asset is to accurately reflect the fair market price of the asset. A write-down adjustment will adjust the acquisition price. The depreciation in periods after the asset write-down shall be based on the new carrying amount and the new carrying amount should be divided by the remaining useful life.

For buildings, a separate file should be maintained for each significant alteration or structural change that increase the usefulness, efficiency or asset life of existing buildings. The file should contain the date, nature and cost of the significant alteration or structural change. Additionally, the files for buildings should contain the date, depreciation and value of deletions reducing recorded costs. As additions or deletions are made to existing buildings, cost and other appropriate data will be entered to update the system.

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5.11 Overhaul vs. Repair - determination and recording

Repairs: Normal, scheduled repairs to keep assets in operating condition are a period expense. Repairs are charged in the period incurred as they do not increase the value of the asset. Examples of period expenses include scheduled cleanings, equipment lubrication, replacement of minor parts, adjustment of equipment, and repainting.

Overhaul: If the repair is of a material nature or if it is a repair of a major component of a machine, the amount is added to the machine cost and capitalized because the benefit is for more than the current period. How the amount is recorded; as an improvement, replacement, or addition depends on what the repair was for.

(See the Fixed Asset Maintenance procedures for details).

Fixed asset month-end accruals: In order to report fixed assets timely and accurately, a month-end accrual is recorded for assets that have been received for which no invoice has been received (*See Accounts Payable Procedures and/or Month End Accounting Close Procedures*). An adjusting entry is calculated and recorded in the period for the associated asset(s) depreciation. The adjusting entries ensure that fixed assets are presented timely and accurately in the Authority's financial statements.

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5.12 Determining Capitalized Costs vs. Expensed Costs

Recording Interest Capitalization: It is the policy of the Authority to capitalize property and equipment with a unit cost of the Authority's policy stated fixed asset floor amount or higher, in accordance with OMB Circular A-87 (Code of Federal Regulation, Title 2, Subtitle A, Chapter II, CFR Part 225). Items with a unit cost below this threshold shall be expensed in the year purchased. The Authority complies with FASB 93, of the Financial Accounting Standards Board in recognizing depreciation on long-lived assets and providing proper disclosure in the financial statements.

Equipment and Leased Equipment (Capital Lease vs. Operating Lease): Equipment should be capitalized if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the Authority by the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- The present value of the lease payments at the inception of the lease, excluding execution costs, equals at least 90 percent of the fair value of the leased property.

(Leases that do not meet any of the above requirements should be recorded as an operating lease).

Capitalization of equipment costs include but are not limited to, the following:

- Original contract or invoice cost.
- Freight, import duties, handling and storage costs.
- Specific in-transit insurance charges.
- Sales, use and other taxes imposed on the purchase.
- Costs of preparation of foundations and other costs in connection with making a proper site for the assets.
- Installation charges.
- Costs for reconditioning used equipment to make it usable for the purpose it was purchased.

(Improvements to existing equipment - Assets that extend the useful life or capacity of the asset and meet capitalization thresholds will be capitalized as a separate asset/component and depreciated over its estimated useful life).

Computer Software Purchased - Computer software costing more than the Authority's policy stated fixed asset floor amount with a useful life beyond a single reporting period (generally one-year) should be capitalized.

5.13 Obsolescence – Definition and Accountability

Obsolescence is the process of becoming antiquated, old fashioned, outmoded, or out-of-date. It describes a decline in utility that does not result directly from physical usage, the action of the elements or the passage of time. Instead, obsolescence is caused by changes in people's needs and expectations regarding the use of a particular object or idea. Utility, the sense of usefulness, desirability or satisfaction, is therefore central to the concept of obsolescence. If something is not usable, it will be considered obsolete. However, because there is no single measure of utility it is difficult to produce a rational, consistent and objective measure of obsolescence. Assets should be reviewed for obsolescence at least annually. The obsolescence review should be documented in the asset file. When assets are deemed obsolete the asset should be retired, processing the retirement through the fixed asset system and the general ledger.

Obsolescence in buildings is normally measured in terms of the real or nominal decrease in value. This approach has been used to study the impact of obsolescence on the depreciation of buildings in the investment property market. There are two types of obsolescence for buildings.

- Locational obsolescence occurs when an area, and the property located in it, suffers from devaluation because it is considered less fashionable or attractive by occupiers.
- Building obsolescence occurs when a building's stream of rental payments bears little relationship to the rental payments usually obtained from that location.

(This distinction is important since it is rarely possible for an individual building owner or occupier to remedy the causes of locational obsolescence, whereas building obsolescence can often be remedied by renovation).

5.14 Surplus Property Management

Surplus property must be accounted for the same as assets in use. They must be counted during physical inventory and current condition noted. Any changes in use or dispositions must be documented.

5.15 Payment of Invoices for Fixed Assets

The employee / department that originally requested the asset and will become the custodial employee / department will authorize the invoices for payment. This is a separate employee /

department from the one who prepares and schedules invoices for payment. *(See Accounts Payable Procedures)*

5.16 Fixed Asset System Interface

The Authority will have detailed procedures for interfacing the accounts payable and/or grants management systems with the fixed asset system. The Authority will develop detailed procedures for its interface between the fixed asset system and the general ledger whether automated or manual system.

5.17 Processing of Fixed Assets for the Current Period

The Depreciation processes (monthly and year to date).

- Assign an asset class*
- Assign depreciation elements*
- Determine salvage value*
- Create depreciation calculation
  (Determine the most appropriate depreciation method).
- Print depreciation report
- Create depreciation journal entry
- Record the depreciation journal entry in the accounting software.
- File depreciation journal entry with supporting documentation - Attach the depreciation report to the journal entry form and file it with the monthly/annual journal entries.* *(usually performed during new asset creation)*

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For illustrative purposes the Straight Line method of depreciation is described below. The appropriate depreciation method to be used will be determined by the Authority.

Depreciation Expense Calculation – Straight Line

Cost of the Asset	$105,000
Less: Expected Salvage Value	- 5,000
	$100,000
Depreciable cost {amount to be depreciated over the estimated useful life}	
	$100,000
Years of estimated useful life	10
Depreciation expense per year	$ 10,000
Depreciation expense per month ($10k/12)	$ 833

(See the Appendices for the journal entry to record depreciation)

Often only one depreciation expense account is set up; while separate accumulated depreciation accounts are set up for each asset or each group of assets.

For accounting purposes, a fully depreciated fixed asset is only worth its salvage value. When an asset is capitalized, its cost is depreciated over several years according to its depreciation schedule. This theoretically provides a reasonable estimate of the true expenses of maintaining the Authority's asset each year. Since it is difficult to predict the useful life of an asset, depreciation expenses represent only a rough estimate of the true amount of an asset used up each year. Therefore it is not unusual for a fully depreciated asset to still be in good working order and producing value for the Authority.

Accounting Department processes depreciation for the period. Fixed asset reports are generated from the fixed asset system and provided to the accounting department for recording fixed assets and related depreciation for the period. A supervisory level employee will review the final depreciation reports for reasonableness before providing the accounting department the depreciation reports. The employee recording the fixed assets and related depreciation in the general ledger for the period would review the depreciation reports for reasonableness before recording the entry. The entry and related fixed assed reports will be reviewed by a supervisory level employee for reasonableness before the entry is posted to the general ledger.

5.18 Safeguarding of Fixed Assets

- The safeguarding of Fixed Assets. Fixed assets should be protected from unauthorized access or use and properly safeguarded from loss through theft.

- Department heads are responsible for the physical possession and control of all property entrusted to their department. This is normally limited to personal property. They are under financial liability for the loss or damage to personal property under their control if the loss or damage results from their negligence, intentional act, or failure to exercise reasonable care to safeguard, maintain, and service the items. Department heads are also responsible for ensuring employees are aware of their responsibilities for property.

- A department head may appoint, in writing, an alternate custodian to act on his behalf. Designated by the department head, the alternate custodian performs the daily functions of personal property management for the department. While the alternate custodian exercises "due care", the ultimate responsibility for departmental equipment belong to the department head. Since Alternate custodian generally fills out the paperwork and are aware of day-to-day equipment issues, department heads should provide training to these individuals on proper asset management procedures for property under their care.

- When personal property is to be assigned to an employee for use overnight or during the weekend at some location other than the normal official work area, the fixed asset custodian should require the use of a sign out procedure. When personal property, such as laptops, drafting sets, and cameras, are specifically assigned to an employee for use in the employee's official duties, the fixed asset custodian must ensure that upon employee transfer or termination all personal property assigned to the employee is returned to the department or the responsible unit.

- The physical safeguarding of Fixed Assets also involves implementing security measures as a precaution against theft, the effects of the weather, sabotage, etc. The Authority's facilities should be locked at night to ensure that all assets are safe when business is closed. There should be limited access to sensitive areas (ex. HR files, Accounts Payable check printer). Typical countermeasures such as alarms systems, security cameras, fenced in facility, security guards, etc. should be utilized as needed. The department responsible for the safeguarding of the Authority's Fixed Assets should also ensure that all assets are adequately insured.

- As part of the Authority's responsibility to safeguard its fixed assets, the entity must exercise all efforts to recover lost or stolen fixed assets or their dollar cost equivalent and assure full compliance with Act No. 96 of 1964, as amended.

5.19 Insurance:

The Authority should assign a department/employee that will be responsible for obtaining insurance coverage for grant-funded rolling stock and other fixed assets/equipment. The Authority's insurance coverage should be reviewed for adequacy and expiration/renewal purposes at least annually.

5.20 Salvage Value Determination Process

The salvage value amount must be determined and the method of determination should be documented before entering into the fixed asset system. In the calculation of depreciation expense, the salvage value of an asset is an estimated amount. The estimated amount is often zero. With the common assumption of no salvage value, the entire cost of an asset used by the Authority will be depreciated over the asset's useful life. There are instances where the salvage value must be calculated.

- The Authority may also estimate that it will be able to recover R% of the price of acquisition. Therefore, the salvage value would be: Salvage Value = R% x (Acquisition Price).

- Other times the salvage value of an asset is an estimated amount that is other than zero. The estimated amount may be an amount that the Authority expects it can acquire when the asset is disposed of at the end of its useful life.

5.21 Sale, Cannibalization, Loss of Fixed Assets

In this section the various ways fixed assets are disposed of will be described. The Sale of Fixed Assets subsection describes what needs to be done to the accounting records of the Authority at the time of sale. The Disposal by Donation subsection describes the important difference from that of a sale. The Cannibalization of fixed Assets subsection describes the extra concerns that need to be considered when managing fixed assets that are held for cannibalization purposes. The Loss or Stolen fixed assets subsection describes the recommended actions that should take place when different types of losses take place.

5.21.1 Sale of Fixed Assets

In the normal course of doing business, the Authority will dispose of unneeded fixed assets by selling them, trading them in as partial payments on new fixed assets, transferring them, or scraping them (throwing away assets that are totally worn out). Under these circumstances, the Authority has to remove the asset's cost and its associated accumulated depreciation from the balance sheet. Additionally, if the Authority made or lost any money on the transfer, disposal or sale transaction, that gain or loss amount has to be recorded on the income statement.

To calculate the gain or loss on the sale of a fixed asset, the Authority has to figure out the asset's book value up to the date of sale. The total (accumulated) depreciation is subtracted from the asset's cost to arrive at the asset's ending book value. Asset retirements/disposals should be approved properly and timely per the Authority's policy. These assets should be properly removed from the Authority's general ledger on a timely basis. Applicable gains/losses should be properly recognized and reported on a timely basis. Retired/disposed assets should be physically disposed of or transferred in a proper manner and in a timely basis. The disposition of property purchased under state and federal grants and contracts should be handled in accordance with the applicable government regulations and specific instructions from contracting agencies. (See appendices for the accounting entries to record the sale of fixed asset transactions).

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5.21.2 Disposal of Fixed Assets by Donation

Determine FMV at the date of donation. Provide disposition information to the fixed asset department in order for the fixed asset system to be updated. Disposition documentation should be included in the asset file.

Based on the Authority's enabling Act, as amended, the Authority may dispose of its property thru sale, lease, and transfer or by any other means, provided such transaction is in accordance with the Authority's internal regulations. Donations to third parties, excluding the Commonwealth Government of Puerto Rico instrumentalities, are only allowed under the following conditions: (1) the donation must require the previous approval by Resolution of Board of Directors and (2) the use of the donated property is limited to social purposes for the benefit of the people of Puerto Rico. The appropriate evidence of said purpose must be presented to the Board.

5.21.3 Cannibalization of Fixed Assets

When an asset is dismantled and used for parts it is referred to as being cannibalized. The asset should be dismantled before the asset is retired. This will protect the Authority from an unacceptable audit finding for an asset found (active) in inventory that has been retired. When assets are cannibalized it is important to remove the tag number to ensure a part with a tag is not added to an existing capital asset with its own tag. A note should be added to the retirement document that confirms the tag number has been removed. Some parts may qualify as "post-cannibalization" assets. If the book value of the asset at the time of retirement is greater than or equal to the Authority's policy stated fixed asset floor amount, the fair market value of each part should be evaluated. Parts can be classified in 3 types; *Spare replacement, Upgrade or Stand-alone* (in production). Spare replacement parts (hot spares) are not put into production until needed and therefore do not need to be further evaluated as possible assets. For the part to be considered an upgrade the part would need to be installed on capital equipment and the installation of the part will do one of the following:

- Add a substantial increase in the functionality of the equipment which allows it to function or perform tasks it was previously incapable of performing.
- Add a substantial increase in the efficiency of the equipment, that is, an increase in the level of service provided by the equipment without the ability to perform additional tasks.
- Extend the estimated useful life of the equipment.

If the installation of the part is an upgrade, on the retirement document, the initiator will need to list the original cost of the part in the document notes, and the asset number the part will be installed on. If the original cost is unknown, the Authority may provide the fair market value. If the Authority chooses to utilize the fair market value for the part; the Authority will be required to supply supporting documentation for the fair market value. Fair market value for assets can be determined by references to the realizable value of similar assets that are sold for cash, quoted market prices, or independent appraisals. In accordance with Generally Accepted Accounting Principles (GAAP) the Authority will do a cost basis adjustment to the cost of the asset of the part that will be installed. Using the part's original cost or fair market value, the Authority will determine the book value of the part. When the determined book value is within the Authority's policy stated fixed asset floor amount or more, the cost will be added to the target asset (upgraded asset). The Authority will accomplish this by creating a "found" asset using the book value of the part, and a create date set from date the asset is used. The found asset will then be merged into the target asset. Stand-alone assets can function apart from the original cannibalized asset and expected to be placed into production immediately after separation. Similarly, these assets will be created using the "found" method.

5.21.4 The Reporting of Lost / Stolen Fixed Assets

Theft - When assets are stolen a report must be filed with the Police Department. When capital assets are retired with a retirement reason of theft, the retirement document will require a Police Department case number.

Lost - Assets should only be retired as lost after every effort has been made to locate the asset. A note should be added to the retirement document that provides details as to the search that was performed. Upon review, the Authority may contact the custodial department for more information. Once an asset is retired it can only be reactivated by using the net book value (NBV). The net book value is calculated using the original acquisition date, original cost and the useful life assigned to the asset and is the difference between the original cost and the accumulated depreciation. When the NBV is under the capitalization threshold the asset cannot be reactivated. For surplus sales and sales of scrap the sold retirement information will require the reason for disposition, buying institution or individual's name, as well as the selling price.

Any property loss as a result of embezzlement or other irregular causes must be reported by the Finance Officer to the Office of the Controller of Puerto Rico and the Secretary of Justice in conformity with Act No. 96 of 1964, as amended.

Reporting of Vehicle Loss due to Collision

If the Authority has a Vehicle Loss due to Collision a full report of the accident should be prepared. A supervisory level employee should review the report. A new asset number should be assigned to the replacement item. The original asset number should be disposed in the Fixed Assets system. Both asset numbers should reference the corresponding asset number that it either replaced or was replaced by, and the date of replacement. Make sure this change is well documented for future reference. For Federally funded Vehicles the Federal agency must be notified of the loss, any insurance proceeds that are received and the percentage of the insurance proceeds due to the Federal agency.

Reporting of Casualty Losses (Fire, earthquake, other catastrophic events)

If the Authority has a Casualty Loss a full report of the loss should be prepared. A supervisory level employee should review the report. A new asset number should be assigned to the replacement item(s). The original asset number should be disposed in the Fixed Assets system. Both asset numbers should reference the corresponding asset number that it either replaced or was replaced by, and the date of replacement. Make sure this change is well documented for future reference. For Federally funded assets the Federal agency must be notified of the loss, any insurance proceeds that are received and the percentage of the insurance proceeds due to the Federal agency.

5.22 Fixed Asset Review

The Reconciliation between the Fixed Asset System and the General Ledger

A fixed asset roll-forward should be prepared on a monthly basis that evidences the additions / subtractions to fixed assets via acquisitions, disposals, and transfers. The roll-forward schedules should then be reconciled with the General Ledger by someone who does not maintain the fixed asset system to ensure that the Accounts Payable sub-ledger is properly feeding the General Ledger at least quarterly. The Accounts Payable to General Ledger reconciliation should be reviewed and approved by someone other than the preparer of the reconciliation.

5.23 The filing of Fixed Asset reports and supporting documentation

Documents should be filed both electronically and in hardcopy, as applicable, in the fixed asset system. The Fixed Asset documents report should be retained according to the Authority's record retention policy.

5.24 Segregation of Duties

Segregation of duties is the concept of having more than one person required to complete a business process. The concept of the segregation by sharing of more than one individual in one single task or business process is an internal control intended to prevent fraud and error.

5.24.1 General categories of functions to be separated:

- **Authorization** function
- **Recording** function, e.g. preparing source documents or code or performance reports
- **Custody** of asset whether directly or indirectly, e.g. receiving checks in mail or implementing source code or database changes
- **Reconciliation** or audit
- **Splitting** one security key in two (more) parts between responsible persons

5.24.2 The list below includes specific functions that should be segregated

Employee Access - Employees responsible for purchases or disposals of fixed assets should not have access to record transactions in the fixed asset ledger.

Asset Useful Life - The useful life of the fixed asset (i.e., the life over which the asset is depreciated) should be determined based on generally accepted accounting principles and entered in the system by a finance employee responsible for maintaining the fixed asset ledger.

Disposals - A supervisory-level employee should perform a review and authorization of all fixed asset disposals. Authorizations of disposals should be segregated from detailed record keeping, custody of assets, and access of records.

Periodic Physical Counts - Employees without record-keeping or authorization responsibilities should conduct periodic physical counts of fixed assets, such as a finance department employee or an outside inventory service.

Fixed Asset System Adjustments - A supervisory-level employee who is not involved in the physical count of fixed assets and maintenance of the fixed asset system should review and approve adjustments to the fixed asset system.

Reconciliations - Someone who does not maintain the fixed asset system should complete the reconciliation between the general ledger and the fixed asset system. Account reconciliations should be reviewed and approved by someone other than the preparer of the reconciliation.

Project Accounting - Responsibilities for initiating, evaluating, and approving capital expenditures, leases, and maintenance or repair projects should be segregated from those for project accounting (ex. Tracking construction in progress) and property records functions.

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6 Appendices

TYPICAL ACCOUNTING ENTRIES FOR FIXED ASSETS:

6.1 To Record the Addition of an Asset:

The Authority Records the Purchase Of Fixed Asset for $2,000,000:

Debit: the Asset account for $2,000,000

Credit: cash/accounts payable for $2,000,000

6.2 To Record Annual Depreciation Expenses

On an Asset that was purchased for 2,000,000 with a 10 Year Useful Life and is Being Depreciated on a Straight Line Basis:

Debit: Depreciation Expense	$200,000	
Credit: Accumulated Depreciation		200,000

6.3 To Record the Sale of an Asset at a Loss

The Authority Sold an Asset Purchase for 2,000,000 with a Remaining Book Value of $1,800,000 for 1,500,000.

Debit: Accumulated Depreciation for	$ 200,000	
Debit: Cash	1,500,000	
Debit: Loss on Disposal	300,000	
Credit: the Fix Asset Account for		$ 2, 000,000

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6.4 To Record the Sale of an Asset at a Gain

The Authority Sold an Asset Purchase for 2,000,000 with a Remaining Book Value of $1,800,000 for 2,000,000.

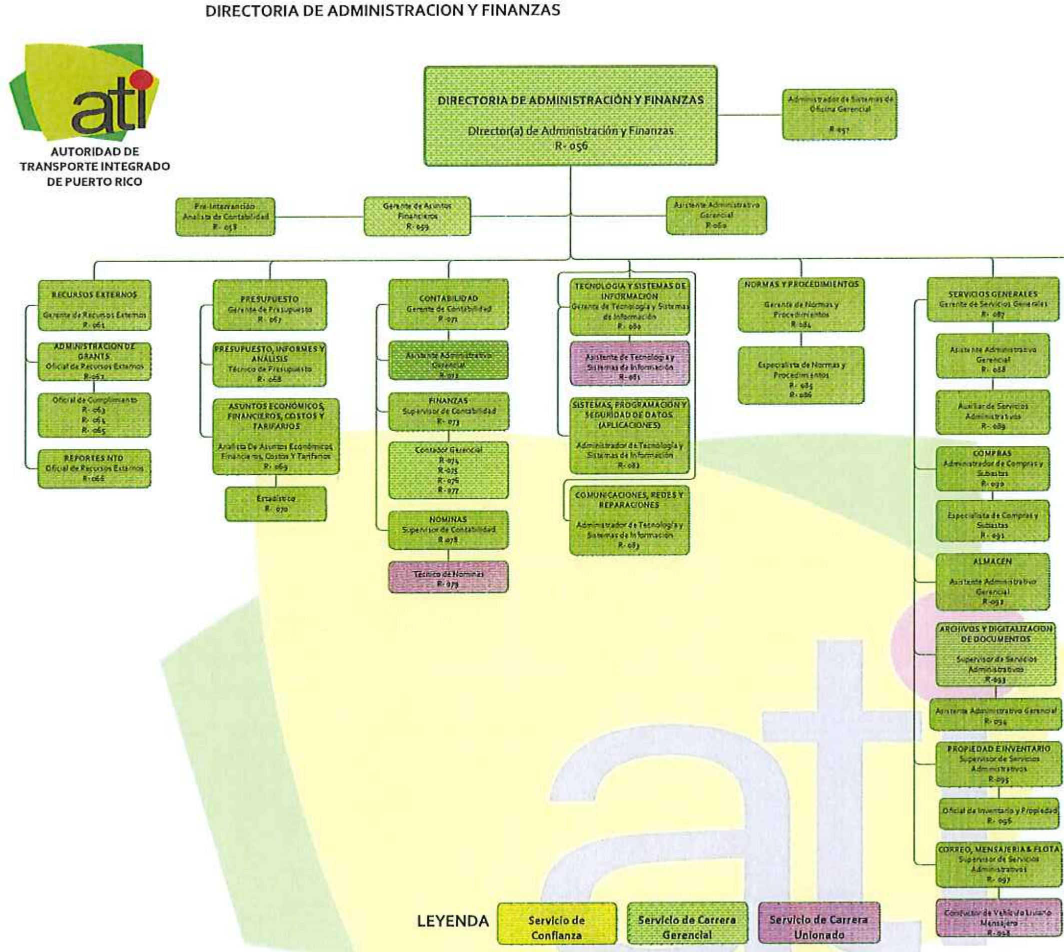
Debit: Accumulated Depreciation for $200,000
Debit: Cash 2,000,000
Credit: the Fix Asset Account for $ 2, 000,000
Credit: Gain on Sale of Asset 200,000

6.5 To Record the Asset at no gain or loss:

The Authority Sold an Asset Purchase for 2,000,000 with a Remaining Book Value of $1,800,000 for 1,800,000.

Debit: Accumulated Depreciation for $200,000
Debit: Cash 1,800,000
Credit: the Fix Asset Account for $ 2, 000,000

7 Organization Chart



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8 Fixed Asset Forms

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9 RESUMEN DE LAS GUÍAS DE VIDA ÚTIL Y DEPRECIACIÓN DE ACTIVOS FIJOS

RESUMEN DE LAS GUÍAS DE VIDA ÚTIL Y DEPRECIACIÓN DE ACTIVOS FIJOS
sugerido por la
AUTORIDAD FEDERAL DE TRANSPORTACIÓN Y LA JUNTA REGLAMENTADORA DE LOS PRONUNCIAMIENTOS DE CONTABILIDAD GENERALMENTE ACEPTADOS
(Federal Transit Authority y General Accounting Standard Board)

A continuación se presenta en forma resumida las guías establecidas por la Autoridad Federal de Transportación (FTA por sus siglas en inglés) y la Junta Reglamentadora de los Pronunciamientos de Contabilidad Generalmente Aceptados (GASB por sus siglas en inglés) para establecer la vida útil de los activos fijos y la correspondiente depreciación de los mismos.

La FTA realiza de tiempo en tiempo, estudios encaminados a establecer la política relacionada con el tiempo mínimo que los vehículos (autobuses y autobuses livianos) financiados por subvenciones (grants) tienen que estar en funciones sin penalidad para la entidad recipiente de la subvención. Esto tiene el objetivo de asegurar que se maximice el uso de dichos vehículos e indirectamente sirve como referencia para determinar la vida útil y la depreciación aplicable. Además, la FTA utiliza la información recopilada para establecer la política relacionada con la responsabilidad del recipiente de una subvención de devolver o no parte del dinero otorgado. Como ejemplo tenemos la política relacionada con que si el valor del autobús o autobús liviano al momento de sacarlo de circulación es menor de $5,000 y ha cumplido con el periodo mínimo de uso, entonces el recipiente de la subvención no tiene que devolver dinero.

Por otro lado, la GASB en su publicación "Guías para Capitalización y Depreciación de Activos de Capital"[1] incluye las guías para el cumplimiento con el Pronunciamiento Núm. 34 relacionado con el requerimiento de reportar los activos de capital y depreciación en los estados financieros de las entidades gubernamentales. En estas guías se incluyen los valores mínimos para depreciar y la vida útil por los distintos tipos de activos.

A continuación se presenta un extracto de dos tablas incluidas en el Pronunciamiento Núm. 34 de la GASB. Dichas tablas contienen los activos utilizados por la Agencia. Las mismas contienen las guías sugeridas de valor y vida útil de los activos, para ser utilizados por los auditores externos en el proceso de corroborar el valor de los mismos. En la primera tabla se presenta el valor monetario y la vida útil de distintos activos. En la segunda tabla se presenta detalles de aquellos renglones que en la primera tabla aparecen agrupados bajo la clasificación de propiedad movible.

[1] Guide for Capitalization and Depreciation of Capital Assets – prepared by the Office of Statewide Reporting and Accounting Policy.

Esta primera tabla contiene distintas clases de activos.

Capital Asset	Threshold	Useful Life
Movable Property (not including computer software)	$5,000	Varies – see table below
Computer Software Purchased or Developed for Internal Use	$1,000,000	3 years
Buildings & Improvements	$100,000	40 Years
Leasehold Improvements	$100,000	< of 20 or 40 years or lease term
Land and Non-depreciable Land Improvements	N/A - capitalize all	No useful life assigned for inexhaustible assets
Depreciable Land Improvements	$100,000	20 Years
Infrastructure	$3,000,000	40 Years (preliminary)

En esta segunda tabla se incluyen las partidas que componen los activos clasificados como propiedad movible (movable property).

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Description of Asset and Examples	Useful Life
Movable Property	
Office furniture & fixtures: Examples: desks, file cabinets, safes	10
Computers & peripheral equipment: Examples: hard drives, printers, monitors, keyboards, disc drives, scanners	5
Computer software developed or purchased for internal use (costs that may be capitalized include those incurred during configuration, interfacing, coding, installation, conversion of old data, and testing such as parallel processing)	3
Office machinery & equipment other than computers: Examples: typewriters, calculators, adding machines, copiers and other duplicating equipment	6
Automobiles	5
Buses	9
Printing and publishing equipment	11
Telephone central office equipment. Examples: central office switchboards and related equipment	18
Telephone station equipment. Examples: telephones, booths, teletypewriters, and private exchanges	10
Buildings and Improvements	
Building and improvements other than those listed below.	40
Farm buildings other than single purpose structures. Examples: Houses, barns, garages, warehouses	25
Single purpose agricultural or horticultural structures. Examples: any building or enclosure used specifically for housing, raising, and feeding a particular type of livestock and it's produce and necessary equipment; greenhouses	15
Service station buildings and related land improvements.	20

10 ADOPTED & VALIDATE BY:

17th of December, 2015

Juan A. Vázquez Acevedo
Chief Financial Officer,
Puerto Rico Integrated Transit Authority (The Authority)

DATE

11 EFFECTIVENESS, REPEAL AND APPROVAL

This procedure, shall be valid from the date of approval by the Board of Directors of the Puerto Rico Integrated Transit Authority.

17th of December, 2015

Alberto M. Figueroa Medina, PhD, PE
Executive Director
Puerto Rico Integrated Transit Authority

DATE

Duly approved by the Board of Directors of the Puerto Rico Integrated Transit Authority, in regular meeting held on the 17th of December, 2015

17th of December, 2015

Miguel A. Torres Diaz
Chairman of the Board
Puerto Rico Integrated Transit Authority

DATE

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