

CITY OF DANA POINT COUNCIL POLICY

SUBJECT: Capital Asset Policy	PAGE: 1 of 4	EFFECTIVE DATE: 11/19/2024	POLICY NO.: 234
--	-----------------------------------	---	--------------------------------------

PURPOSE

The purpose of this policy is to establish the City's capitalization criteria, update capital thresholds for each asset classification, provide estimates for useful lives of assets for depreciation/amortization, and maintain accurate and up-to-date records of capital asset information to prepare the City's financial statements in accordance with the Generally Accepted Accounting Principles (GAAP) and Government Accounting Standards Board (GASB). Assets are to be capitalized or disposed of in the same fiscal year that the event occurs. Depreciation/Amortization will be calculated and recorded annually at fiscal year-end close.

POLICY

1. Capitalization Threshold for Class Asset

The Capital Asset Policy for the City of Dana Point is established to ensure the accuracy and reliability of financial statements, compliance with authoritative guidance, adherence to best practices, and for the City to maintain appropriate oversight of assets under its control from theft or loss. Below are threshold amounts applied to the various class assets at the time of acquisition:

Class of Asset	Threshold
Land and Land Rights	Capitalize all affiliated costs or fair value price
Works of Art/Historical Treasures	Capitalize all affiliated costs or fair value price
Infrastructure	\$100,000
Buildings & Improvements	\$100,000
Right to Use Assets (Leases and SBITAs)	\$25,000
Machinery and Equipment	\$15,000

**CITY OF DANA POINT
COUNCIL POLICY**

SUBJECT: Capital Asset Policy	PAGE: 2 of 4	EFFECTIVE DATE: 11/19/2024	POLICY NO.: 234
--	-----------------------------------	---	--------------------------------------

2. Capitalization Requirements

- A. Capital assets must be used in the City’s operations.
- B. An initial useful life of more than 3 years for all class types, except for right-to-use assets, which shall have an initial maximum possible term of more than 12 months.
- C. The term embraces both tangible assets (i.e. land, buildings, vehicles, machinery, equipment, art, infrastructure) which are depreciated and intangible assets (i.e. software and leases) which are not depreciated but amortized. The City has established lease amortization schedules to recognize and annually record the right to use of an asset if it meets the capitalization threshold.
- D. Total cost of a class asset must meet the minimum threshold amount to be classified as a capital asset.
 - This threshold applies to individual units only and not a purchase order which meets the threshold with multiple items.
 - The cost of improvements should be added to the book value of the asset if the improvement meets the capitalization threshold and significantly increases the life, efficiency, or capacity of the asset.
 - Expenses related to the maintenance or repair of an asset are not capitalized. They are generally recognized as those expenditures necessary to keep an asset in its intended operational condition and do not materially increase the value or the life of the asset.
 - Capital improvement projects are capitalized as “construction in progress” until completed. At the completion of the project a transfer will be made from construction in progress to the appropriate asset classification. Costs to be capitalized include direct costs (labor, material, transportation, etc.) and indirect costs (engineering, construction management, etc.). Construction in progress accounts should be reviewed every year to determine if the project has been completed and if so, should be transferred to a final asset and depreciated or amortized.
- E. Under the Uniform Grants Guidance 2 CFR 200, any grant funding used to purchase an asset is subject to the Uniform Grants Guidance threshold of \$10,000.

**CITY OF DANA POINT
COUNCIL POLICY**

SUBJECT: Capital Asset Policy	PAGE: 3 of 4	EFFECTIVE DATE: 11/19/2024	POLICY NO.: 234
--	-----------------------------------	---	--------------------------------------

3. Record Assets in the Capital Asset Module

The Finance Department will enter the asset information into the Capital Asset module:

- A. Description of the asset – the details provided to track assets.
- B. Serial number if available (VIN #'s for vehicles) or unique identifying alpha numeric sequence.
- C. Acquisition date
- D. A unique asset number will be assigned in the City's accounting system.

4. Depreciation/Amortization

Depreciation/Amortization is the process of allocating the cost of a tangible property over a period of time. The City uses the straight-line method of depreciation/amortization for its assets, which evenly distributes the cost of the asset over its useful life. Depreciation/Amortization starts when the asset is placed in service. For construction in progress assets, no depreciation/amortization is recorded until the asset is placed in service. All capital assets that have a zero-dollar book value will be recognized as a capital asset as long as it is in use.

Below is the chart for the asset classification's estimated useful life:

Class of Asset	Estimated Useful Life
Land	Capitalized at fair value but not depreciated
Works of art/historical treasures/Donations	Capitalized at fair value but not depreciated
Infrastructure	30 – 50 years
Buildings & Improvements	20 – 50 years
Equipment	3 – 10 years
Right to Use Assets (Leases and SBITAs)	1-5 years

**CITY OF DANA POINT
COUNCIL POLICY**

SUBJECT: Capital Asset Policy	PAGE: 4 of 4	EFFECTIVE DATE: 11/19/2024	POLICY NO.: 234
--	-----------------------------------	---	--------------------------------------

5. Transfers of Capital Assets

If a capital asset, typically equipment, is moved from one location/department to another, Finance must be notified through a memorandum signed by the department head that currently has ownership of the capital asset. It is imperative that these permanent changes are recorded in the City's accounting system. Not doing so could invalidate the accuracy of our capital asset report and could produce inaccurate data when taking physical inventory.

6. Disposals

Assets that have reached the end of their useful life and have a zero-dollar book value can be disposed of with the approval of the City Manager, or designee, per Dana Point Municipal Code §3.12.310-330.

7. Annual Physical Inventory

The Finance department will conduct a citywide physical inventory of the capital assets at minimum one time per year. The Finance department will randomly select ten capital asset items from each department from the Capital Asset Report and verify the existence and condition of each item on the worksheet, making note of any additions, deletions, interdepartmental transfers, modifications, or leases of property that are not reflected on the list. The Finance Department will notify the department head if there are any differences between the physical inventory and the capital asset list.