Knolls Village Townhome Association Capitalization Policy

The Board of Directors of __Knolls Village Townhouse Association__hereby states its capitalization policy with regards to association assets as of December 31, 2023 . This will be included in the Board meeting minutes of July 2, 2024.

The following is in keeping with industry standards as defined in the Financial Standards Accounting Board's Codification (FASB), which contains generally accepted accounting principles (GAAP) – section 972, et seq. While GAAP allows additional items to be capitalized outside of the following guidelines, it is not industry standard to do so.

- The Association will not capitalize **real property directly associated with the units.**

- The Association will capitalize those **real property assets not directly associated with the units** only when the Association has title and the Board maintains control. Board control is defined to mean that the Board can dispose of the asset without a vote of the membership and the Association can keep the proceeds from the sale of the asset. The other reason to capitalize real property not directly associated with the units is when significant cash flows are generated from members on the basis of usage or from nonmembers.

- The Association shall recognize **common personal property**, such as furnishings, recreational equipment, maintenance equipment, and work vehicle, that is used by the Association in operating, maintaining, repairing, and replacing common property and providing other services. (It is assumed in this case that the Association has title and the Board maintains control of these assets)

The association will capitalize those items which meet the requirements above and which comply with the following:

- The value of the individual asset exceeds the amount of $2,000
- The life of the asset exceeds 7 years

Capitalized assets will be recorded on the balance sheet of the financial statements of the association in the operating fund (FASB 972 10 45 7).

The Board will designate whether to purchase the capitalized assets from the replacement fund (reserves) or operating fund and document that decision in their minutes. Either is acceptable. For accounting purposes, if the asset is purchased from reserve monies it will be transferred to operating fund to be held as an asset of the operating fund (FASB 972 10 25 1)

The capitalized assets will be depreciated over their estimated useful lives based upon the straight line method of depreciation. (FASB 972 10 35 1)

__________________________________ SECRETARY

06-04-24 DATE