

Bonita National Homeowners Association (BNHOA)

Fixed Asset Capitalization and Depreciation Policy

Adopted: June 22, 2020

The BNHOA will capitalize a purchase when the following criteria as applicable are met:

- 1) Assets purchased, built or leased (if it has been determined to be a Capital Lease) have useful or economic lives of one year or more.
- 2) The cost of the asset (including installation, sales/use tax, delivery, and any other direct costs) is \$1000 or more.
- 3) Bulk purchases of similar items having useful economic lives greater than one year, and that have an aggregate value of \$1,000 or more regardless of the individual value. For example, set of dumbbells has a cost of \$50 each, and the fitness room buys 25 sets of dumbbells for a value of \$1,250. Therefore, the sets of dumbbells would be capitalized.
- 4) Items that are routinely purchased as a “set” having a useful life greater than one year and have a value of \$1,000 or more. For example, a table and four chairs were purchased from the same vendor as a set, and the cost of the table was \$1,000 and the cost of each chair was \$250 for a complete total of \$2,000. This total purchase would be capitalized.
- 5) The cost of repairing or renovating the asset (or group of similar assets) is \$1,000 or more **and** prolongs the life of the asset.

Repairs vs. Improvements

Repairs are an expenditure that keeps the property in ordinary, efficient operating condition. The cost of the repair does not add to the value or prolong the original life of asset. All repair expenditures are charged to the appropriate department or fund.

Improvements are expenditures for additions, alterations and renovations that exceed \$1,000, and that appreciably extend the useful life of the asset, materially increasing its value or adapting it to a different use. Improvements of this nature are capitalized.

Repairs must meet one of the criteria in the first column below, but Improvements will need to satisfy the minimum cost criteria in addition to having other characteristics as listed in the second column below in order to be Capitalized.

Examples of repairs vs. improvements are as follows.

Repairs = Expenditures	Improvements = Capitalized Asset
All items—useful life less than one year	Useful life of more than one year
All items under \$1,000	All items \$1,000 or more. Multiple assets whose individual cost is less than \$1,000, but the aggregate total is \$1,000 or more
Property maintenance, e.g. wall repair	Property rebuilding that inherently improves the asset.
Replacement of machine parts to keep the machine in normal working order	Replacement of motor and parts that prolong the original useful life

Property restoration or rebuilding that is more for maintenance and doesn't inherently improve the asset.	Property restoration for something different or better
Existing building repairs	Building regulation conformity
Replacement of small sections of wiring, pipes or light fixtures	Major replacement of wiring, lighting, pipes or sewer
Patching walls, minor repair of floors, painting, etc.	Installation of floor, wall roof, wall-covering, etc.
Patching driveways	New driveway or major repair
Cleaning drapery, carpet, furniture	New drapery, carpets, furniture

Construction Projects

All costs and expenditures associated with a specific construction project will be accumulated in an asset general ledger account titled "Construction-In-Progress". Note that if debt is used to construct assets, any interest incurred should also be accumulated as "Construction-In-Progress". Upon completion of the project, all costs will be reviewed and classified into the appropriate fixed asset category and depreciated using the useful life and depreciation policies noted below.

Useful Lives

The useful life of each fixed asset item will be as follows:

Item	Useful Life
Computer Equipment	3 years
Software	3 – 5 years
Office Equipment	5 years
Vehicles	5 years
Athletic Equipment	7 years
Office Furniture	7 years
Land Improvements (includes roads, sidewalks, etc.)	10 years
Buildings	20 years
Building Improvements	7-10 years

Depreciation Policy

All fixed assets will be depreciated using the straight-line method. In the year of acquisition, depreciation is recorded based on the number of months the asset is in service, counting the month

of acquisition as a full month. For example, an asset purchased on the 15th day of the fifth month will have eight months of depreciation (8/12 of one year) recorded for that year.

For accounting and interim financial reporting purposes, depreciation expense will be recorded on a monthly basis.

Capital Reserve Fund Transfers

For accounting and interim financial reporting purposes, a transfer will be recorded on a monthly basis between the Operating Fund and the Capital Reserve Fund for all capital expenditures.

Tracking of Fixed Assets

The accounting department will maintain a list of all Fixed Assets that includes:

- Date of purchase
- Cost basis
- Department that purchased the fixed asset
- Number assigned to the fixed asset
- Estimated useful life

This list should be given on at least an annual basis to the department manager who purchased the asset, so the head of the department is aware of all the assets under their care and control.

If an asset is disposed of due to obsolescence, damage, or any other reason, the department head should notify the accounting department as soon as possible, so the accounting department can make the proper accounting entries to remove the asset from the HOA books and supporting fixed asset records.