

Cougar Ridge Homeowner Association (HOA) and Water System (WS)
Capitalization Policy

The purpose of our financial statements is to provide information on a monthly basis about our financial position, our performance, and changes in financial position to our Association Members and prospective buyers in a transparent and easy-to-understand manner. Also, the Cougar Ridge Board of Directors should be able to use these financial statements to make sound business management decisions.

The Cougar Ridge homeowners' main concern is knowing that their Board is managing assets appropriately based on current need and long-term maintenance. Care should be given to not inflate or distort the HOA's or WS's equity position.

Our equity, or net worth, is determined by our assets and liabilities. Our short-term assets such as cash held in bank accounts and receivables are simple to value, as are most liabilities like payables and loans.

By contrast, treatment of long-term fixed assets is more complex. Decisions that affect the value of our fixed assets include whether expenditures should be capitalized and depreciated (i.e. considered an asset and incorporated into the balance sheet) or expensed (i.e. charged against income and not identified on the balance sheet). Note that in both scenarios, the cash that is spent reduces current assets.

The purpose of this Capitalization Policy is to outline guidelines for fixed asset accounting for the HOA and the WS. These guidelines are based on the ideology of minimizing capitalization in order to avoid inflating the asset value on the balance sheet while recognizing the importance of the Asset Management Plan Schedule. This schedule is critical for budgeting and long-range planning for the HOA and the WS.

Recommended Capitalization Criteria:

- Any new item that is expensive, significant in nature, has future economic value, is used in the operation of the HOA or WS and costs more than \$5000 for the HOA or \$20,000 for the WS should be considered for capitalization.
- Items capitalized should be depreciated using the appropriate straight-line method.
- Repair of current infrastructure, components and equipment of the HOA and WS should be expensed (For example, lawn tractor repair and maintenance, mailbox repairs, emergency generator repairs).
- Replacement of infrastructure, components and equipment of the HOA and WS should be expensed as Capital Improvement Expense (For example replacement of the deep well pumps).
- Both expensed and capitalized assets should be tracked using the Asset Management Plan Schedule. This schedule should be updated annually to reflect the HOA and WS assets' current value and replacement costs. It can be used to communicate current Asset value and Depreciation reporting.