



**THE OVERLOOK PROPERTY OWNERS ASSOCIATION**  
**Policy and Procedures Manual**  
**October 28, 2007**

**REVISION HISTORY**

<b>Date</b>	<b>Description</b>
03/20/06	<ul style="list-style-type: none"> <li>▪ Initial Release containing following policies (5): <i>Continuity of Policy, Financial Reporting, Operating Bank Accounts, Investments, Expense Reimbursement</i></li> </ul>
06/20/06	<ul style="list-style-type: none"> <li>▪ <i>Operating Bank Accounts</i>: Changed to allow Treasurer to be sole signer for BGE bills up to \$500.</li> <li>▪ New policies (2) added: <i>Delinquency, Certificate of Account Status</i></li> </ul>
10/28/07	<ul style="list-style-type: none"> <li>▪ Policies renumbered.</li> <li>▪ <i>Financial Reporting</i>: Changed to be consistent with current Bylaws which allow either a review or audit.</li> <li>▪ New policies (3) added: <i>Accounting, Reserves, Capitalization &amp; Depreciation</i></li> </ul>

**TABLE OF CONTENTS**

1 Continuity of Policy..... 1

2 Financial Reporting ..... 1

    2.1 Financial Statements & Review..... 1

    2.2 Periodic Financial Review ..... 1

    2.3 Audits ..... 2

3 Operating Bank Accounts ..... 2

    3.1 Applicability ..... 2

    3.2 Account Opening/Closing..... 2

    3.3 Withdrawals and Check Signing Policy ..... 2

    3.4 Receipts and Deposits ..... 3

    3.5 Inter-Account Transfers..... 3

    3.6 Electronic Payments and Online Banking ..... 3

    3.7 Reconciliation ..... 3

4 Investments..... 3

    4.1 Objectives..... 3

    4.2 Acceptable Instruments..... 4

    4.3 Separation of Funds ..... 4

    4.4 Authorities ..... 4

    4.5 Reporting and Review ..... 4

5 Expense Reimbursement..... 4

    5.1 Objectives..... 4

    5.2 Time Limits ..... 5

    5.3 Reporting and Reimbursement ..... 5

    5.4 Travel Expenses..... 5

    5.5 Promotional Expenses ..... 5

    5.6 Transportation Expenses ..... 5

    5.7 Miscellaneous Expenses..... 6

6 Delinquency ..... 6

    6.1 Objectives..... 6

    6.2 Due Dates ..... 6

    6.3 Delinquency Definition..... 6

    6.4 Delinquency Notice ..... 6

    6.5 Application of Payments..... 6

    6.6 Special Consideration ..... 6

    6.7 Late Fees ..... 6

    6.8 Interest ..... 7

    6.9 Collection Fees..... 7

    6.10 Intent to Lien..... 7

    6.11 Statement of Lien and Foreclosure ..... 7

    6.12 Write-offs..... 7

    6.13 Checks Returned for Insufficient Funds ..... 7

    6.14 Limits..... 8

7 Certificate of Account Status..... 8

    7.1 Objective ..... 8

    7.2 Certificate Request & Notification..... 8

7.3 Certificate Preparation..... 8

7.4 Certificate Fees ..... 8

8 Accounting ..... 8

8.1 Objective ..... 8

8.2 Basis of Accounting..... 8

8.3 Fund Accounting ..... 8

8.4 Cash and Cash Equivalents ..... 9

8.5 Assessments and Assessments Receivable..... 9

9 Reserves ..... 9

9.1 Objective ..... 9

9.2 Applicability ..... 9

9.3 Reserve Establishment ..... 9

9.4 Reserve Account Opening/Closing ..... 10

9.5 Capital and Non-Capital Reserve Accounts ..... 10

9.6 Reserve Study..... 10

9.7 Reserve Contributions..... 10

9.8 Reserve Expenses ..... 10

9.9 Inter-fund Transfers..... 10

9.10 Chart of Accounts..... 11

9.11 Withdrawal Authorization..... 11

9.12 Reconciliation ..... 11

10 Capitalization and Depreciation ..... 11

10.1 Objective ..... 11

10.2 Applicability ..... 11

10.3 Basis..... 11

10.4 Fund Allocation..... 11

10.5 Common Real Property..... 11

10.6 Land Improvements..... 12

10.7 Depreciation Method ..... 12

10.8 Depreciation Schedules ..... 12

## **1 Continuity of Policy**

To preserve the ability to meet association needs under changing conditions, the Overlook Property Owners Association may modify, augment, delete or revoke any and all policies, procedures, practices, and statements contained in this manual at any time without notice.

Such changes shall be effective immediately upon approval by management unless otherwise stated.

## **2 Financial Reporting**

### **2.1 Financial Statements & Review**

The Treasurer shall prepare a Financial Report for presentation at each Board meeting. The report should include financial statements (Balance Sheet and Statement of Income and Expenses) and any appropriate notes and/or comments.

### **2.2 Periodic Financial Review**

At least two other Board members should review the financial statements and associated supporting detail on a quarterly basis to verify accuracy and appropriateness.

The review should include the following:

- **Bank Statements and Reconciliation:** Compare each monthly bank statement with the associated bank reconciliation report. Insure each deposit and withdrawal has been accurately accounted for in the bank reconciliation report. Insure the cleared balance on the bank reconciliation report matches the ending balance on the associated bank statement.
- **Cleared Deposits:** Review list of homeowners and annual assessments against the bank deposits. Insure all assessments due have been deposited in the bank.
- **Note:** Assessments are (by far) the primary source of revenues for the Association. Insuring that all assessments are deposited provides a means of insuring such payments are not diverted to unauthorized accounts.
- **Cleared Withdrawals/Checks Review:** Review the check signatures on cancelled checked for authenticity. Insure the check signature policy is followed. Review the associated bill, invoice and/or expense report materials, insure the bill is valid and the check amount matches the billed amount, insure the payee is a valid payee and insure services and/or products associated with invoices/bills have been received by the Association. Insure there are no missing checks by reviewing the check sequence list. Pay special attention to checks written out to board members and or affiliated individuals and/or companies insuring that all such payments are appropriate.
- **Financial Statements:** Compare the actual Revenue and Expenses with the budget values. Insure any significant variances are understood and/or explained. Insure the Balance Sheet bank balances match the ending balance on the bank statements for the quarter. Review the Statement of Cash Flows to note any significant changes in financial position (e.g. significant reductions in cash).

## **2.3 Audits**

As indicated in the OPOA Bylaws, the Treasurer shall insure the financial statements and/or records for the prior Fiscal Year are audited or reviewed by a qualified independent agent (e.g. CPA).

## **3 Operating Bank Accounts**

### **3.1 Applicability**

This policy pertains only to cash and cash-equivalent Operating Accounts and excludes Reserve Accounts. Reserve accounts are setup specifically to fund the future replacement of common interest property (e.g., gatehouse). Cash accounts are fully liquid. Cash equivalent accounts are investment accounts that have maturities of 3 months or less.

### **3.2 Account Opening/Closing**

The Board approves the opening and closing of all operating accounts.

### **3.3 Withdrawals and Check Signing Policy**

Except as noted herein, the Treasurer is authorized to issue and sign checks and/or withdrawals for amounts payable for \$100 or less that are within the approved OPOA budgetary limits. Examples of authorized transactions include paying the monthly BGE bill and writing expense checks.

Except as noted herein, checks or withdrawals over \$100 must be signed/approved by at least two Directors (note exception for inter-account transfers below). Typically, the President is asked to co-sign these expenditures in addition to the Treasurer's signature. Checks submitted for Director approval should be accompanied by evidence of the associated bill, expense report, and/or check justification.

Payments described below are exempt from the \$100 dual check signer policy. For these payments, any single check signer (the Treasurer or any other director with check signing authority) may authorize and sign checks

- Payments to BGE for electricity and related service charges provided such payments are less than \$500 and within the OPOA budget.

In general, cash withdrawals or checks made payable to Cash are prohibited. In some cases, these types of transactions may be authorized if approved ahead of time by the Board. For example, it is sometimes customary for banks to request a check be made out to Cash when issuing Money Orders. Signing blank checks is prohibited. It is not anticipated that OPOA will maintain a petty cash account, but this might be authorized in the future.

In no case can checks made payable to the Treasurer or the Treasurer's family members be authorized or signed by the Treasurer. Thus, for these checks either one or two other Directors must authorize/sign the check, i.e. one Director for checks for \$100 or less and two Directors for checks over \$100.

### **3.4 Receipts and Deposits**

It is the OPOA policy not to accept cash receipts or payments from any entity including customers, members, and/or vendors. Checks and electronic deposits are acceptable.

Checks received by OPOA shall be immediately stamped for deposit only in an OPOA bank account. Checks should be deposited in account as soon as reasonably possible, e.g., within one week.

### **3.5 Inter-Account Transfers**

The Treasurer is authorized to transfer funds between OPOA bank Operating Accounts to facilitate the payment of OPOA expenses while maintaining reasonable rates of return on deposit accounts provided that such transfers do not incur bank fees or penalties. The transfer amounts may be of any value provided that the transfers are between two Operating Accounts (e.g. transfers involving third party accounts or reserve accounts are not permitted under this policy statement).

### **3.6 Electronic Payments and Online Banking**

The Treasurer is authorized to conduct transactions electronically within the transaction approval guidelines and limitations set forth above.

### **3.7 Reconciliation**

The Treasurer should reconcile Operating Account statements on a monthly basis, but not less than quarterly.

## **4 Investments**

The Board of Directors has a fiduciary responsibility to develop and adopt prudent investment policies and procedures.

### **4.1 Objectives**

The policy of OPOA is to invest funds in short term and fixed income instruments earning a market rate of interest without assuming undue risk to principal. The three essential objectives in the order of importance are:

- Safety – protecting the principal from as much risk as possible. Investments should be federally insured either through FDIC or the US Government. Thus, not more than \$100,000 will be invested in any one financial institution so that the funds are fully protected by FDIC.
- Liquidity – the ease and costs associated with converting an investment into cash or cash equivalent. Investment maturities should meet projected cash flow needs.
- Yield – the amount of return on an investment. The ultimate earnings from an investment are not necessarily the state rate of interest. Yield is to be obtained by selecting an investment on the basis of “best relative value” as to type and maturity, and the transaction then executed at a competitive price. Speculation on interest rate movement is less desirable than fixed rate investment instruments.

## **4.2 Acceptable Instruments**

Generally, funds may be invested in the following types of accounts and financial instruments.

- Interest Checking Account
- Savings Account
- Money Market Account
- Certificates of Deposit (CDs)
- US Treasury Bills

## **4.3 Separation of Funds**

Operating funds and reserve funds are to be kept in separate accounts, i.e., operating and reserve funds should not be co-mingled, in order to minimize potential tax liabilities.

## **4.4 Authorities**

The Board of Directors must approve the opening and closing of all investment accounts. The Board must approve any and all transactions related to investment accounts with maturity time periods of greater than 3 months. The Board should vote to invest funds based on an approved investment policy.

## **4.5 Reporting and Review**

The Treasurer should reconcile investment statements on a monthly basis, but at least once every quarter. Investments should be reviewed at least once every 6 months to insure investment objectives described in Section 4.1 are met and to facilitate updates to the investment portfolio based on market changes. A summary of this investment review and any recommendations should be presented to the Board of Directors at the next scheduled board meeting.

# **5 Expense Reimbursement**

## **5.1 Objectives**

The policy of OPOA is to reimburse individuals for ordinary, necessary and reasonable expenses when directly related to the transaction of OPOA business. It is expected that individuals exercise prudent business judgment regarding expenses covered by this policy.

In addition, this policy is intended to comply with IRS rules and regulations as an 'accountable plan'. Thus and unless otherwise stated:

- The expenses must have a business connection – that is, you must have paid or incurred deductible expenses while performing services on behalf of OPOA.
- You must adequately account to OPOA for these expenses within a reasonable period of time (see Time Limit Rules below).
- You must return any excess reimbursement or allowance within a reasonable period of time (see Time Limits below).

## 5.2 Time Limits

The following time limits apply with regard to expense reimbursements unless approved otherwise by the Board of Directors.

- You will not receive an allowance more than 30 days in advance of an anticipated expense.
- You must submit an expense report within 60 days of the date the expense(s) were paid or incurred or the following January 31<sup>st</sup> (which ever is earlier).
- You must return any excess reimbursement within 120 days after the expense was paid or incurred.
- You are given a periodic statement (at least quarterly) that asks you to either return or adequately account for outstanding advances and you comply within 120 days of the statement.

## 5.3 Reporting and Reimbursement

Expense reimbursement requests should be submitted on the OPOA Expense Report form. Attach original receipts (or receipt copy if original receipt is not available) to the back of the form.

Expense reports are signed by the submitting individual and reviewed/approved by the Treasurer. Expense report approval indicates that that report has been filled out properly. It is not an authorization to distribute funds. Expense reports submitted by the Treasurer are to be reviewed/approved by another Board member.

Expense reimbursement checks are covered under the check writing policy described in Section 3.3. While it is the policy of the Board to reimburse individuals for necessary and reasonable costs incurred on behalf of the Association, it is prudent for individuals to seek prior approval before incurring expenses (especially for amounts over \$100 or amounts that exceed the OPOA approved budget).

The subsequent paragraphs provide additional rules and/or guidance depending on the type of expense incurred.

## 5.4 Travel Expenses

It is not anticipated that OPOA business activities will require any out of town travel. Notwithstanding, if such travel is needed, it will require express approval by the Board of Directors at a regular meeting or by unanimous written consent outside of such a meeting.

## 5.5 Promotional Expenses

Promotional activities include the promotion the OPOA organization within the community as well as externally. It is anticipated that OPOA Directors, Committee Members, or Association Members will participate in such activities and may request advances (in advance of) or reimbursements (subsequent to) such a promotional activity/event.

## 5.6 Transportation Expenses

Transportation expenses described herein pertain to use of a personally owned vehicle (POV) for OPOA business activities. Generally, car expenses are reimbursed using the federal

standard mileage rate (SMR). The SMR is changed from time to time (please see [www.gsa.gov](http://www.gsa.gov)) to find the rate in effect for the time you use your POV. In addition to using the standard mileage rate, you can request reimbursement for any OPOA business-related parking fees and tolls.

## **5.7 Miscellaneous Expenses**

Typical miscellaneous expenses that are reimbursable include purchase of office supplies, communications expense, postage expense, and OPOA business related fees and service expenses.

# **6 Delinquency**

## **6.1 Objectives**

This policy is intended to comply with the Maryland Contract Lien Act.

## **6.2 Due Dates**

Annual assessments are due and payable in full on the 15<sup>th</sup> day of January unless otherwise stated by the Board of Directors. All other assessments, including Special Assessments are due and payable on the date specified by the Board in the notice of assessment. All other charges including but not limited to late fees, interest, collection costs and fines are due as incurred. All assessments, late fees, interest and collection costs are subject to the Delinquency Policy. The Association sends out assessment notes at least 30 days in advance of the due date.

## **6.3 Delinquency Definition**

As stated in the Bylaws, any assessments which are not paid when due shall be delinquent.

## **6.4 Delinquency Notice**

It is the policy to send a reminder notice to home owners that have not paid their assessment(s) by the due date.

## **6.5 Application of Payments**

Payments received will be applied in the following order: Unpaid principal including assessments and special assessments levied in accordance with the Declaration and the Bylaws, late fees, collection fees, interest and CC&R's violation fees. Payments are applied as of the date of receipt by the Association. Any payments returned for insufficient funds shall be viewed as if payment was never received.

## **6.6 Special Consideration**

Any request for special consideration must be submitted to the Board prior to the assessment becoming more than 45 days past due.

## **6.7 Late Fees**

As permitted by the Maryland Homeowners Association Act, a late fee of \$25.00 is assessed on accounts that are more than 30 days delinquent.

## **6.8 Interest**

An interest charge at the rate of 18 percent per annum will be assessed against any outstanding balance, including delinquent assessments, late charges, and cost of collection, which may include attorneys' fees. Such interest charges shall accrue thirty (30) days after the assessment becomes due and shall continue to be assessed each month until the account is brought current. The compounded monthly assessment rate is 1.3888 percent which yields the annual rate of 18 percent.

## **6.9 Collection Fees**

Accounts that are more than 90 days delinquent may be forwarded to a collection agent and/or attorney. Any associated collection and/or attorney costs incurred by the Association shall be charged against the delinquent account.

## **6.10 Intent to Lien**

The Association may send by certified mail with return receipt requested an "Intent to Lien" notice to any homeowner that has an account that is more than 90 days delinquent. Pursuit to the Maryland Contract Lien Act, this notice shall include:

- The name and address of the party seeking to create the line;
- A statement of intent to create a lien;
- An identification of the contract;
- The nature of the alleged breach;
- The amount of alleged damages;
- A description of the property against which the lien is intended to be imposed sufficient to identify the property, and stating the county or counties in which the property is located; and
- A statement that the party against whose property the lien is intended to be imposed has the right to a hearing under Section 14-203(c) of the Maryland Contract Lien Act.

## **6.11 Statement of Lien and Foreclosure**

The Association may file a lien statement within 60 days after the Intent to Lien notice if the account has not been paid in full or if a payment agreement has not been reached. The Association may foreclose the lien against the property under the appropriate provisions of the Annotated Code of Maryland.

## **6.12 Write-offs**

The Board of Directors may write-off (waive) delinquency related charges at its sole discretion provided that it treats all homeowners fairly.

## **6.13 Checks Returned for Insufficient Funds**

Homeowners will be charged a \$5.00 fee for each check returned for insufficient funds.

## **6.14 Limits**

Nothing herein limits or otherwise affects the Association's right to proceed in any lawful manner to collect any delinquent sums owed to the Association.

## **7 Certificate of Account Status**

### **7.1 Objective**

Pursuit to the OPOA Declaration (CC&Rs), the Association may be required to issue a Certificate of Account Status (COAS) setting forth whether the assessments on a specified Lot have been paid.

### **7.2 Certificate Request & Notification**

Upon receipt of a request for COAS, the Treasurer will prepare a draft Certificate stating the account status and will notify the Lot homeowner that such a request has been made. The homeowner has 15 days after receipt of such a notification to present the Board with any objection.

### **7.3 Certificate Preparation**

The Treasurer will print a final Certificate for signature by both the Treasurer and at least one other director (nominally the President) and (after signatures are obtained) will provide the Certificate to the requesting party (e.g., via US mail) within 30 days of the request. A copy of the Certificate and the name/address of the requesting party will be mailed to the homeowner.

### **7.4 Certificate Fees**

The Association presently does not charge a fee for the preparation of the Certificate.

## **8 Accounting**

### **8.1 Objective**

The objective of this policy is to describe the significant accounting policies of the Association

### **8.2 Basis of Accounting**

The accompanying financial statements are presented using the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not

### **8.3 Fund Accounting**

Financial resources are classified for accounting purposes into four funds.

- Operating Fund – This fund is used to account for the general operations of the Association.
- Property Fund – This fund is used to account for property and equipment including land improvements.

- Replacement Fund – This fund is a capital reserve fund used to accumulate monies designated for future major repairs and replacements of common elements.
- Maintenance Fund – This fund is a non-capital reserve fund used to accumulate monies for contingences, such as damage resulting from storms, and for components requiring periodic maintenance which does not occur annually.

## **8.4 Cash and Cash Equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with financial institutions, and highly liquid investments with original maturities of three months or less when purchased

## **8.5 Assessments and Assessments Receivable**

The Association sets annual assessment fees which are billed to all privately-owned home sites. These assessments are used to cover the costs of operating the Association, to maintain the common elements and improvements, to support community organized activities, and to provide for the repair and replacement of common area elements.

The Association bills its members approximately one month in advance of the annual period which begins on the first day of the year. The assessments are earned on the first day of the year and are due by fifteenth day of the year. Prepaid assessments represent assessments billed and paid in advance of the first of the year.

Any excess assessments at year-end are retained by the Association for use in future years.

The Association considers assessments receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. The Association has the right to levy liens on a member's property to insure payment of an assessment due the Association.

# **9 Reserves**

## **9.1 Objective**

The objective of the Reserve policy is to describe policies and procedures related to reserve funds. In addition, the policies and procedures set forth below are intended to avoid any adverse federal income tax consequences upon the contribution of their annual assessments to the capital of the association, particularly the portion to be set aside and held in reserve for repair and replacement of improvements to the common areas.

## **9.2 Applicability**

This policy pertains only to Reserve Accounts. Reserve accounts are setup specifically to fund the future replacement of common interest property (e.g., gatehouse) an. Cash accounts are fully liquid. Cash equivalent accounts are investment accounts that have maturities of 3 months or less.

## **9.3 Reserve Establishment**

A capital reserve fund for major repair and capital replacements shall be established.

#### **9.4 Reserve Account Opening/Closing**

The Board approves the opening and closing of all reserve accounts.

#### **9.5 Capital and Non-Capital Reserve Accounts**

The Association will establish separate bank accounts for capital and non-capital reserve accounts.

- Capital Reserve Accounts: . These accounts should only contain funds for items that are capital in nature as defined by the IRS. These accounts are allocated to the Replacement Fund.
- Non-Capital Reserve Accounts. These accounts are for non-capital reserve items such as painting, contingency (such as damage resulting from storms), termite, tree trimming, and any other items that are non-capital in nature. These accounts include funds for components requiring periodic maintenance which does not occur annually. These accounts are allocated to the Maintenance Fund.

#### **9.6 Reserve Study**

The Association will cause a reserve study to be prepared. The reserve study will cover all capital items at a minimum, but may also include non-capital items. The Association will update the study every 5 years. Reserve amounts will be maintained in accordance with the Association's Reserve Study. The Association will prepare a budget that agrees with the reserve study. If for some reason the reserve amounts and/or budget amounts are not in accordance with the reserve study, the Association will disclose this to its Members.

#### **9.7 Reserve Contributions**

Member assessments received will be deposited into the association's operating account(s), then the reserves portion of the dues income will be immediately (within 1-2 weeks) transferred by two separate checks: one to the Replacement Fund account(s) and one to the Maintenance Fund account(s).

#### **9.8 Reserve Expenses**

Replacement fund expenditures should be paid directly from the replacement fund bank accounts. If for any reason replacement fund expenditures are instead paid from the operating account, they should immediately be reimbursed for the exact amount from the replacement fund account(s). Withdrawals from the Replacement Fund may only be used for restoration, repair and replacement of existing capital improvements, not for new facilities or additions or improvements to existing facilities or property.

Expenses that would otherwise qualify for payment from the reserve funds (Replacement Fund or Maintenance Fund), but are less \$500 may be paid from the operating fund account(s).

#### **9.9 Inter-fund Transfers**

The Association will refrain from making inter-fund loans or transfers for reasons other than repayment of reserve expenses from the Replacement Fund account(s) to any other fund accounts. If inter-fund transactions of this nature occur, they will be fully documented in the

minutes and by note documents with specific repayment terms. Such transactions must be approved by the Board of Directors.

### **9.10 Chart of Accounts**

The Association will separately account for operating and reserve transactions in the Association's financial statements and general ledger. The reserve assessment is accounted for separately in the books of the corporation because for reserve assessments to be considered nontaxable contributed capital (when filing a regular 1120 corporate return), there must be a separate accounting of these funds.

### **9.11 Withdrawal Authorization**

The authorized signatories for the reserve account(s) shall be any two directors, or one director and an officer who is not a director. The signatures of two persons are required to make withdrawals from this account.

### **9.12 Reconciliation**

The Treasurer should reconcile Reserve Account statements on a monthly basis, but not less than quarterly.

## **10 Capitalization and Depreciation**

### **10.1 Objective**

The objective of the capitalization and depreciation policy is to provide for consistent treatment of capital expenses and to select capital and depreciation policies that enable assets to have common depreciation schedules for both financial and tax reporting purposes.

### **10.2 Applicability**

Any individual expense over 5% of the annual assessment total (other than the exceptions below) will be treated as a capital expense and will be depreciated over the useful lifetime of the item. Items less than or equal to 5% of the annual assessment will be expensed due non-material nature of the expense.

Landscaping improvements will be treated as a capital item if an individual improvement exceeds \$2000.

### **10.3 Basis**

Newly acquired real and personal property and major improvements are recorded at cost.

### **10.4 Fund Allocation**

Capital property should be recorded and depreciated within the Property Fund.

### **10.5 Common Real Property**

Common real property directly associated with member property is not capitalized, e.g., a member's lot line easement is analogous to common walls in condominiums.

The Association does not capitalize common real property transferred at no cost from the developer unless (a) the Association has title or other evidence of ownership of the property, and (b) either of the following conditions are met: (1) The Association can dispose of the property, at the discretion of the board of directors, for cash or claims to cash, with the Association retaining the proceeds, or (2) The property is used by the Association to generate significant cash flows from members on the basis of usage or from non-members.

Assets owned by the Association but not recorded or capitalized in the financial statements include the Recreation Area and Open Spaces.

## **10.6 Land Improvements**

The association capitalizes and depreciates land improvements based on cost. Land improvements include items such as excavation, non-infrastructure utility installation, driveways, sidewalks, parking lots, flagpoles, retaining walls, fencing, landscaping shrubbery, outdoor lighting, wells, irrigation systems, and other non-building improvements intended to make the land ready for its intended purpose.

Land improvements can be further categorized as non-exhaustible and exhaustible. Expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are generally not exhaustible, and therefore not depreciable.

Infrastructure assets are defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

Improvements to infrastructure or land improvements which 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.

## **10.7 Depreciation Method**

Unless otherwise stated and approved by the Board of Directors, capital items will be depreciated using the straight-line methodology based on the half-year convention. Under the half-year capital items purchased during the fiscal year will be treated as though they were placed in service on the first day of the seventh month of the fiscal year. One-half of a full year's depreciation will be taken for the capital items in the first year they were placed in service.

## **10.8 Depreciation Schedules**

In general, the Association establishes depreciation schedules in accordance with IRS Publication 946.