FP-001	Computer Software Capitalization Policy

Classification:	**Finance Policy**
Responsible Authority:	**Chief Financial Officer**
Executive Sponsor:	**Vice President, Finance and Administration**
Approval Authority:	**Audit and Risk Management Committee**
Date of Original Policy:	**2016-10-31**
Date of Last Review:	**2021-11-21**
Mandatory Review Date:	**2026-11-21**

Policy

1. For the purpose of this policy, the following items are considered computer software subject to consideration for capitalization:

    1.1. Externally purchased computer software which is then installed on Algonquin College computer hardware; hereinafter referred to as "purchased computer software"

    1.2. Externally purchased computer software installed on computer hardware external to Algonquin College. This type of computer software is often referred to Software as a Solution (SaaS), Hosted Software, or Cloud Computing; hereinafter referred to as "externally hosted computer software"

    1.3. Internally developed computer software installed on Algonquin College computer hardware; hereinafter referred to as "internally developed computer software"

2. Computer software of Algonquin College should be capitalized if the total cost is $5,000 or greater in the following instances:

    2.1. The cost of purchasing and implementing computer software is $5,000 or greater;

    2.2. The cost incurred to implement an externally hosted computer software is $5,000 or greater, or

    2.3. The cost incurred to internally develop and implement computer software is $5,000 or greater.

3. Computer software with a cost equal to, or greater than the threshold established in Section 2 of this policy should be capitalized and amortized over the useful life of the asset (estimated to be between 3-10 years).

4. Computer software costs incurred below the threshold should be expensed.

5. When the development or implementation of computer software spans more than one fiscal year, the costs incurred in each of the individual years in the development or implementation of computer software should not be considered in isolation from the entire project cost. The total development and/or implementation cost of the project must be considered when applying the capitalization threshold in Section 2 of this policy.

6. Costs incurred over multiple fiscal years are recorded as work in progress until the computer software is available for use.

7. Development or implementation in progress is not amortized until the project is complete and the computer software is available for use.

8. This policy also applies to costs associated with modifications or betterments to existing purchased computer software, modifications or betterments to internally developed computer software, or modifications or betterments to externally hosted computer software, if the cost of the modification or betterment exceeds the thresholds established above in Section 2 of this policy, and not considered to be regular maintenance costs. The costs of the modification or betterment will be added to the existing asset, capitalized and amortized over the remaining useful life of the asset as detailed in Section 3 of this policy.

9. Costs incurred which are considered to be ongoing maintenance of the computer software over the useful life of the asset will be expensed in the year incurred.

10. The cost to implement externally hosted computer software, or to internally develop computer software is considered in three segments. These segments are the Research Phase, Development Phase, and the Administration Support Phase. Costs associated with each segment will be considered as follows:

    10.1. Research Phase – Represents the cost incurred in researching, selecting, or analyzing options for obtaining or developing computer software. These costs will not be capitalized, but will be expensed in the period incurred. These costs are generally incurred while researching a computer software solution, and during the request for proposal phase (if required). These costs, depending on the computer solution chosen by the College, occur up to the purchase of a computer software solution, the execution of a contract for the delivery of an externally hosted computer software, or up to the start of the development phase of internally developed computer software.

    10.2. Development Phase – Depending on the type of computer solution chosen, these costs represent the expenses incurred from the date of execution of the contract with a vendor who is selected to provide an externally hosted computer software solution, or at the start of the actual development of

internally developed computer software. These costs will be accumulated up to the date of when the asset is ready for use. Expenses incurred in the development phase will be capitalized if the threshold established in Section 2 of this policy is met. This will include the following examples of directly attributable costs:

10.2.1. Costs of materials and services used or consumed in the generation of an internally developed computer software, or during the implementation of an externally hosted computer software;

10.2.2. Costs of employee salaries, wages and benefits arising from the generation of an internally developed computer software, or during the implementation of an externally hosted computer software;

10.2.3. Costs of external contractors retained to assist in the generation of internally developed computer software, or costs of external contractors retained to assist during the implementation of an externally hosted computer software;

10.2.4. Fees incurred to register a legal right to the computer software;

10.2.5. Interest costs incurred when the project is funded through an external loan agreement to which there is an interest component attached.

10.3. Administration Support Phase – Represents the expenses incurred during a computer software project that are of an administrative nature. These costs will not be capitalized. The following are examples of the type of expenditures which will not be capitalized:

10.3.1. Administrative and other general overhead expenditures unless these expenditures can be directly attributed to preparing the computer software for use;

10.3.2. Hospitality, travel, and promotional costs;

10.3.3. Expenditures on training staff to operate the computer software, except where the training is considered necessary for the implementation of the computer software solution.

11. The value of computer software to be capitalized is the amount initially assigned to that asset less any residual value. The residual value of computer software is assumed to be zero unless at the end of its useful life the asset is expected to continue to have a useful life to another enterprise, and:

11.1. There is a commitment from a third party to purchase the asset at the end of its useful life; or

11.2.   The residual value can be determined by reference to an exchange transaction in an existing market for that asset and that market is expected to exist at the end of the asset's useful life.

12. If the estimated useful life of the computer software changes due to an impairment in value, the asset will be re-valued and the amortization schedule adjusted to reflect the estimated remaining useful life.

13. This policy will be reviewed and amended as required by the Audit and Risk Management Committee of Algonquin College on a scheduled basis. This will include the review of the capitalization threshold and the remaining estimated useful life of capitalized computer software.

Accounting Guidance:

Accounting Standards for Private Enterprises (ASPE) 3064 – Goodwill and Intangible Assets.
Public Sector Accounting Standards (PSAS) 4230 – Capital Assets Held by Not-for-Profit Organizations
Public Sector Accounting Standards (PSAS) 3150 – Tangible Capital Assets