

Tangible Capital Asset Accounting Procedures			
Parent Policy	Capital Asset Accounting Policy		
Policy Sponsor	Vice President, Finance and Administration	Category	Administrative
Policy Contact	Director, Financial Services	Effective Date	January 6, 2020
Procedure Contact	Director, Financial Services	Review Date	January 6, 2025

1. Purpose

To set out the procedures for accounting for Tangible Capital Assets.

2. Scope

2.1. Applies to all members of the Athabasca University Community.

2.2. Applies to all Athabasca University Tangible Capital Assets, whether purchased, leased, received in kind, or internally developed.

2.3. Does not apply to

- Intangible assets such as goodwill, patents and copyrights (e.g. cannot be seen, touched or physically measured);
- Inventory held for resale that are recognized as financial assets;
- Natural resources; and
- Collections.

3. Definitions

Acquisition	The act of acquiring or obtaining a Tangible Capital Asset.
Amortization	The process of allocating the cost of an asset to the periods of benefit, over its useful life in a systematic manner.
Accumulated Amortization	The total value of a Tangible Capital Asset expensed through the amortization process to date.
Betterment	A cost incurred to enhance the service potential of a Tangible Capital Asset that may or may not extend the useful life of a Tangible Capital Asset.
Bulk Purchase	The acquisition of similar Tangible Capital Assets that have a unit value below the capitalization threshold for each individual unit (on their own) but have a minimum value of \$25,000 as a group.

Capitalize	Recording the cost as a capital asset (to be amortized over several accounting periods) instead of an expense (charged against revenue in one accounting period).
Capitalized Cost	<p>The gross consideration given up (e.g. cash outlay) to acquire, construct, develop, or better a Tangible Capital Asset, to ready it for its intended use.</p> <ul style="list-style-type: none"> • Purchased Tangible Capital Asset cost includes all internal and external costs directly attributable to its acquisition. • Constructed or developed Tangible Capital Asset cost includes all internal and external costs directly attributable to the project or initiative delivery. • A donated Tangible Capital Asset is deemed to be the fair market value as of the date of acceptance of the donation by the University.
Capital Lease	A lease agreement that, from the viewpoint of the lessee (University), transfers substantially all the benefits and risks incident to ownership of property to the lessee.
Carrying Value	The net book value of a Tangible Capital Asset.
Cloud Computing	Arrangements where software, platform and or infrastructure is located in the AU secure cloud environment or hosted in a vendor's secure cloud environment or are AU cloud-synchronized hardware owned or physically located on the University's premises in Alberta and synchronized to the AU cloud and maintained by cloud vendor.
Collections	Works of art, cultural and historical properties, and archival materials held for public exhibition, education or research; and are protected, cared for and preserved.
Composite Tangible Capital Asset	Comprised of several pieces/parts that are purchased jointly or separately, function together, and are collectively valued over the threshold amount for capitalization, including those purchased in relation to digital initiatives.
Digital Initiative	A strategic or operational technology projects, digital in nature, funded by any faculty, department, or administrative unit for which the purpose will generate a tangible capital asset. (This excludes Academic specific research projects).
Disposal Gain	The amount by which the proceeds realized upon an asset's disposal exceed the asset's net book value.
Disposal Loss	The amount by which the net book value of a capital asset exceeds the proceeds realized upon the asset's disposal.

Executive Team	Is comprised of the President; Provost and Vice-President Academic; Vice-President, Finance and Administration and Chief Financial Officer; Vice-President, Information Technology and Chief Information Officer; Vice-President, University Relations; University Secretary; Chief Human Resource Officer; the Chief of Staff, Office of the President, and any other position as so designated.
External Resources	External resources refer to the cost of goods and services provided by suppliers, outside of Athabasca University employees, and are directly attributable to the project or initiative delivery.
Fair Market Value (FMV)	The amount of the consideration that would be agreed upon in an arm's length (i.e. where parties are not related) transaction between knowledgeable and willing parties who are under no obligation to act. Fair Value is similar to Market Value.
Internal Resources	Refers to the cost of employees or other direct expenditures, such as travel, in any department or faculty, of the University who are assigned in full, or in part, to a capital project whose duties are directly related to the purpose of the capital project.
Net Book Value (NBV)	The cost of the Tangible Capital Asset less accumulated amortization, less the amount of any writes downs in value.
Nominal Value	The value assigned to a donated (contributed) capital asset when there is no relevant valuation methodology to determine fair market value and where an estimate could not be verifiable. The nominal value in these circumstances is defined as one Canadian dollar.
Related Parties	A situation where one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other, and is able to impact transactions between them. Two or more parties are related when they are subject to common control, joint control or common significant influence.
Residual Value	An amount the University expects to realize on the disposal of a Tangible Capital Asset at the end of its useful life; generally deemed Nil.
Service Potential	The output or service capacity of a Tangible Capital Asset, determined by evaluating assessed physical output or service capacity, operating costs, the useful life, or the quality of the output or service.
Tangible Capital Asset	A non-financial asset having a physical substance (e.g. that can be seen, touched or measured) that: <ul style="list-style-type: none"> • Is held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other capital assets,

	<ul style="list-style-type: none"> • has value or useful economic life recognized over more than one fiscal year, and • has a cost exceeding the prescribed threshold amount. <p>They may be acquired directly by the University, donated (contributed) to the University, or produced as a result of a building project or part of a Digital Initiative. Tangible Capital Assets include such items as land, building, equipment, furniture, computer hardware and software, and vehicles.</p> <p>They do not include such items as inventories held for consumption or resale; intangible assets like goodwill, patents and copyrights or assets acquired by right such as forests, water and mineral resources; collections; or assets below the threshold amount.</p>
Tangible Capital Asset Categories	A Tangible Capital Asset is classified and recorded in the accounting records into a category, and generally is assigned to the group according to its amortization period. Appendix A sets out the Tangible Capital Asset categories used by the University.
Tangible Capital Asset Project	An approved building or improvement project or a Digital Initiative for the construction, development, or acquisition of a Tangible Capital Asset with a planned total cost (internal and external resources) of \$25,000 or more. A capital asset project or initiative may involve a capital upgrade (i.e. betterment).
Threshold Amount	The minimum total cost (internal and external resources) that an individual Tangible Capital Asset, Composite Tangible Capital Asset, or capital project must have before it is recorded as a Tangible Capital Asset in the financial records.
Useful Life	The estimate of the period over which a Tangible Capital Asset is expected to be used by the University, as determined by University administration. The life of a Tangible Capital Asset may extend beyond its useful life to the University.
Work-in-progress (WIP)	The value of an acquired, constructed, or developed Tangible Capital Asset, at any point, prior to its final completion and before it is placed into service.
Write-down	A partial reduction in the cost of a Tangible Capital Asset when conditions indicate the Tangible Capital Asset no longer contributes to the University's ability to provide goods and services, or that the value of future economic benefits associated with it is less than its net book value.
Write-off	A full reduction in the cost of a Tangible Capital Asset when conditions indicate it no longer contributes to the University's ability to provide goods and services, or that the value of future economic benefits associated with it is less than its net book value.

4. Guiding Principles

For the purposes associated with capitalization and amortization, the University is required to comply with accounting practices outlined in Public Sector Accounting Standards, as such; Financial Services provides advice and guidance on accounting treatment.

4.1 Acquisition Procedures

All acquisitions are to be made in accordance with the Purchasing Policy.

Procurement and Contract Services will assign an asset number and provide it, and any supporting documentation (e.g. purchase orders, contracts, etc.), to Financial Services. The applicable Tangible Capital Asset category account number would be used at time of processing the transaction.

Repair and maintenance expenses will be reviewed by Financial Services to determine whether amounts spent meet the definition of a Tangible Capital Asset, and if their value exceeds the Tangible Capital Asset threshold amount. In consultation with the department, accounting adjusting entries will be made to capitalize costs, by transferring amounts from operations, as appropriate.

a) Cost

Tangible Capital Assets are recorded at cost within their respective Tangible Capital Asset Category. Refer to Appendix A for descriptions of categories used by the University.

Costs for all items that meet the definition of a Tangible Capital Asset (including composite Tangible Capital Assets), and that exceed a cost threshold amount of \$5,000 will be capitalized in the financial accounting records of the University noting the following exceptions:

- Building or improvement projects – minimum \$25,000
- Digital Initiatives – minimum \$25,000
- Bulk purchases – minimum \$25,000
- Betterment projects – minimum \$25,000
- Library Holdings are all capitalized, regardless of value (no minimum threshold)

Bulk purchases of similar Tangible Capital Assets that have a unit value below the capitalization threshold of \$5,000 (on their own) but have a minimum value as

a group of \$25,000 shall be pooled as a single asset with one combined value. Although recorded in the asset module as a single purchase, each unit of the pool is to be recorded in an asset sub-ledger (by the respective department) for monitoring and control of their use and maintenance. One example of a bulk purchase of similar assets would be laptops.

b) Tangible Capital Asset Projects

Building or Improvement Projects with a planned total cost of \$25,000 or more will be capitalized in the financial accounting records of the University.

Digital Initiatives with a planned total cost of \$25,000 or more will be capitalized in the financial records of the University. Refer to Appendix B for additional guidance on Digital Initiatives.

c) Donated Tangible Capital Assets

Donated Tangible Capital Assets are recorded at their fair market value, on the date of donation, except in circumstances where Fair Market Value cannot be reasonably determined, in which case they are then recognized at Nominal Value.

d) Capital Leases

When the University leases an asset, evaluation of the factors in the agreement will be necessary to determine if it will be considered a Capital Lease for accounting purposes. The asset will be accounted for as a Tangible Capital Asset with an offsetting liability component.

e) Collections

Collections would not be recognized as Tangible Capital Assets because a reasonable estimate of the future benefits associated with such property cannot be made. Therefore, collections are not capitalized and are expensed when acquired.

f) Assets transferred to and from third parties

Transfers of Tangible Capital Assets to and from third parties (not including Related Parties) will be recorded at fair market value. The difference between the fair market value and the net book value of the transferred Tangible Capital Asset will be recorded as revenue or expense as appropriate.

Transfers of Tangible Capital Assets between the University and a Related Party are recorded at the carrying value (i.e. net book value, by recording its original historical costs and accumulated amortization of the capital asset).

g) Betterments

Betterments that enhance service potential normally include

- Additions made to an existing Tangible Capital Asset to extend, enlarge or expand it.
- Upgrades that involve removing a major part or component of a Tangible Capital Asset and a substitution of a different component that has significantly improved performance capabilities.
- Rearrangements that involve reinstalling, rerouting, or reorganization of substantial components to achieve greater service efficiency or effectiveness.

All characteristics of service potential should be evaluated in determining if a Betterment has enhanced the output or service capacity of a Tangible Capital Asset (e.g. compare with the originally service potential). Enhancement generally occurs;

- when there is an increase in the previously assessed physical output or service capacity,
- where associated operating costs are lowered due to efficiency gains (or revenue generated is higher),
- when the useful life is extended,
- or when the quality of the output improved.

Betterments that meet the minimum threshold are capitalized under the applicable Tangible Capital Asset category and thereby increases the historical cost of a Tangible Capital Asset. Costs under the minimum threshold for capitalization should be expensed.

Where a Betterment enhances the service potential of a Tangible Capital Asset without increasing its useful life, the amortization period should remain the same. Where a Betterment increases the useful life of a Tangible Capital Asset, its useful life should be extended.

Where a Betterment involves the replacement of an identifiable component of a capital asset, the original cost of that component and the related accumulated amortization should be removed from the accounting records.

The costs incurred in repairs and maintenance (e.g. replacement of individual parts due to age, 'wear-and-tear' or damage) that are necessary to maintain the functionality and expected service potential of a Tangible Capital Asset, to the end of its original estimated useful life, are not Betterments. Because these costs bring the asset back to its original standard (e.g. do not enhance the functionality, capacity, usability, and efficiency) they should be expensed as incurred.

4.2 Amortization Procedure

The amortization amount of a Tangible Capital Asset will be recorded as an expense to operations, determined using a straight-line method over the estimated useful life of the Tangible Capital Asset.

Building and improvement projects are not amortized until after the project is complete (the month following substantial completion and sign-off) and the capital asset is in service, or in the case of a building, the space is occupied.

In the case of Digital Initiatives amortization will begin once the appropriate documentation (e.g. Project Closure Report or Composite Asset Completion Report) has been signed-off acknowledging the composite Tangible Capital Asset(s) have been completed and/or delivered and is in service.

a) Work-in-Progress

Projects and initiatives will be considered work-in-progress until appropriate documentation acknowledging the Tangible Capital Asset project, in whole or in composite asset stage, has been completed and/or delivered and is in service.

b) Estimated Useful Life

Tangible Capital Assets have prescribed estimated useful lives that are intended to apply to Tangible Capital Assets in new condition. Refer to Appendix A for the prescribed useful life by category.

Estimating useful lives of Tangible Capital Assets is a matter of judgement and should be applied on a consistent basis. Factors to be considered in estimating the useful life of a Tangible Capital Asset, new or used, include:

- Expected future usage
- Technical obsolescence
- Expected wear and tear through the passage of time
- Studies of similar items retired
- The maintenance program
- The condition of existing comparable items

In addition, departments acquiring a “used” Tangible Capital Asset should adjust the estimated useful life based on the age and condition of the asset.

For composite Tangible Capital Assets, the estimated useful life should be determined by the Digital Governance Committee and is to be identified in the applicable documentation such as a composite asset completion report.

The estimated useful life of a tangible asset category and remaining useful life of individual Tangible Capital Assets should be reviewed biannually and revised where appropriate.

4.3 Disposition of Tangible Capital Assets

The disposal of a Tangible Capital Assets results in the removal of it from service and may occur by sale (includes trade-in), transfer, donation or write-down/write-off (includes obsolescence, destruction, loss, or abandonment).

Surplus and/or obsolete Tangible Capital Assets must be disposed of in accordance with established agreements/contracts and/or conditions of funders.

Financial Services will be notified prior to the disposition of any Tangible Capital Asset. Physical disposal of obsolete or damaged Tangible Capital Assets will be performed by:

- Facilities and Services – for furniture and fixtures
- Information Technology Services – for computer-related equipment including infrastructure such as software and hardware

It is the responsibility of the faculty or department head to notify Facilities and Services when they identify obsolete or surplus items. In the case of outdated Tangible Capital Assets that are of a digital nature (e.g., hardware, software) these should be reviewed by the Digital Governance Committee in accordance with their terms of reference for their determination of status.

Financial Services will provide Facilities and Services and Information Technology Services a respective listing of all Tangible Capital Assets that remain on the Fixed Asset Continuity Schedule, at minimum on an annual basis, for their evaluation of status.

When a Tangible Capital Asset is disposed of, the cost and the accumulated amortization should be removed from the accounting records and any gain or loss recorded accordingly.

a) Sales of Tangible Capital Assets to external parties

Procurement & Contract Services is responsible for selling or arranging for the sale of all University assets after obtaining appropriate approval.

Sales of Tangible Capital Assets to external parties are to be made at fair market value.

Proceeds generated from the disposal of Tangible Capital Assets and any related gains shall be credited to the University in general and not to an individual department, unless other arrangements are approved by the Vice President, Finance and Administration.

The difference between the sale price and the Net Book Value of the Tangible Capital Asset will be recorded as a gain or loss on disposal of a Tangible Capital Asset and will be recognized in the statement of operations in the fiscal year that it occurs.

b) Transfers or donations of Tangible Capital Assets to external parties

A transfer or donation of a Tangible Capital Assets is considered a non-monetary transaction except in the case of a nominal sum disposal.

A transfer normally occurs between parties within a related reporting entity, for example between two post-secondary institutions whereas a donation is more common in a non-related party transaction.

Where Tangible Capital Assets are transferred or donated to an external party, including nominal sum disposals, the net book value of the assets will be removed from the accounting records and charged as an expense.

c) Write-downs and Write-offs

A Write-down or a Write-off reduces the cost of a Tangible Capital Asset when there is a permanent decline of the assets' value; that is when conditions indicate the Tangible Capital Asset no longer contributes to the University's ability to provide goods or services, or that the value of future economic benefits associated with the Tangible Capital Asset are less than its Net Book Value. A Write-down is used to reflect a partial decline in value whereas a Write-off is used to reflect a complete decline of the value.

Significant events or conditions to consider that indicate diminished service potential include:

- Adverse change in the extent or manner of use,
- Asset is stolen, lost, or obsolete (including from technological advances),
- Lower level of services than originally planned (e.g. due to removal from use, neglect or abandonment),

- Physical damage or destruction

Write-offs or Write-downs are accounted for as an expense in the Statement of Operations in the fiscal year they occur. Write-downs or Write-offs should not be reversed, however Betterments, to a previous written down Tangible Capital Asset, that have been made to bring the asset back into service are added to the book value.

Annual amortization of the Tangible Capital Asset written down should be calculated using the net book value after the Write-down using the remaining estimated useful life.

The determination of when an asset is written down or written off is made by the faculty or department head in consultation with Financial Services, and the rationale should be documented. The transaction may require approval by the Athabasca University Executive Team depending upon the financial implications and materiality of the amount.

The listing of Tangible Capital Assets should be reviewed on a regular basis by the faculty or department to identify any assets that may require a Write-down or Write-off. In addition, work-in-progress amounts of a digital nature should be evaluated by Digital Governance Committee to assess future economic benefit(s) of the items.

In regard to AU's library resources, on an annual basis Financial Services will obtain from the Director, Library & Scholarly Resources, or designate, the estimated percentage for shrinkage/obsolescence of AU's library holdings in order to calculate the Net Book Value of library assets to be removed from the accounting records (and charged as an expense if applicable).

5. Applicable Legislation and Regulations

[Chartered Professional Accountants \(CPA\) Canada Handbook - Public Sector Accounting Standards](#)

6. Related Procedures/Documents

[Tangible Capital Asset Accounting Policy](#)

[Purchasing Policy](#)

[Delegation of Expenditure Approval Authority Policy](#)

[Donation Acceptance Policy](#)

History

<i>Date</i>	<i>Action</i>
January 6, 2020	Executive Team (Policy Approved)
January 22, 2015	The Governors of Athabasca University Motion # 194-07 (policy revised)

Appendix A **September 2018**
Tangible Capital Asset Categories and Recommended Useful Life

<u>Main Category</u>	<u>Sub-Category</u>	<u>Useful Life (years)</u>
LAND		
Land includes raw land, but excludes all improvements such as buildings, land improvements and equipment affixed to the land. It includes all costs directly related to the acquisition such as options or transfer fees, purchase cost, title insurance, legal and other professional fees, surveys, appraisals and real estate commission.		
		Not applicable: NO amortization
BUILDING		
A structure that is normally affixed to land, used or intended for supporting or sheltering any use or occupancy.		
	New construction	40
	Expansion	remaining life
	Trailer & mobile enclosures	20
SITE IMPROVEMENTS		
Cost of improvements to land, but excludes buildings, Examples include roads, parking lots, sidewalks, sewer and water facilities.		
	Exterior Lighting	10
	Exterior paving & surfacing	10
	Fencing	10
	Landscaping	25
	Services & Utilities	25
	Site preparation	25
LEASEHOLD IMPROVEMENTS		
Renovations or modifications to leased accommodations or property. Leasehold improvements are paid for by the University, provide benefits for more than one year, and revert back to the lessor at the end of the lease.		

<u>Main Category</u>	<u>Sub-Category</u>	<u>Useful Life (years)</u>
EQUIPMENT		
Items that can be relocated and are not integral parts of buildings. Equipment may be assigned to one of the classifications below:		
	Appliances	5
	Laboratory	5
	Postal	5
	Scientific	5
	Media	8
	Desks, cabinetry & storage	10
	Grounds implements	10
	Mechanical	10
	Musical	10
	Recreation	10
	Shop/maintenance	10
	Electrical	20
COMPUTER HARDWARE		
Computing infrastructure for information technology.		
	Projectors, desktop printers, skype enabled devices, and AV equipment	4
	Desktops/Laptops	5
	Servers	5
	Mass Storage units - NAS	5
	Network switches - POE (power over Ethernet)	5
	Smartboards	5
	Telephone & communications, Network switches & routers	5
	Back-up tape library devices	7
	Mass Storage Units - SAN (Storage area network device)	7

<u>Main Category</u>	<u>Sub-Category</u>	<u>Useful Life (years)</u>
	Wireless endpoints	7
	Network switches	8
	Network Routers	8
	Network Copiers and Printers	8
	Firewalls	8
	Telephone & communications - PBX Switches	10
COMPUTING SOFTWARE		
Any programs or applications that operate using computer technologies.		
	Microcomputer & server software (purchased)	3 years
	In house developed software	as per Digital Governance Committee documentation such as a composite asset completion report
	Cloud computing infrastructure eligible for capitalization	Lesser of expected useful life or duration of the cloud computing contract
TRANSPORTATION EQUIPMENT		
Vehicles or operating equipment used primarily for transportation or maintenance purposes.		
	Lawn Tractors	5
	Vehicles	5
	Forklifts	10
	Loaders	10
	Trailers	20
LIBRARY HOLDINGS		
Tangible holdings in all formats that are acquired by the University Library and offered to patrons for the purpose of study, teaching, and research. Holdings include books, audio visual materials, maps, microforms, and periodicals.		
		10

Appendix B**September 2018****Additional Guidance on capitalization of Digital Initiatives**Overview:

The University may undertake Digital Initiatives (technology-related projects) involving the development, modification or deployment of software, or the acquisition and implementation of hardware to support strategic or operational goals. This appendix provides guidance on these initiatives and applies in cases when they are outsourced and when they are completed with internal and or external resources.

Digital Initiative Stages:

Digital Initiative activities can usually be divided into three stages (refer to the decision checklist below for guidance on costs expensed or capitalized):

- A. Preliminary stage – this involves activities such as establishing high-level functional and non-functional requirements, determining sourcing options (internal resources, evaluation and selection of external resources) and evaluation of alternatives to determine the viability of the investment.
- B. Development and/or acquisition stage – this involves activities such as software development (coding), configuration, interfacing, testing, deployment, and warranty work or the acquisition and implementation of hardware or infrastructure.
- C. Post implementation (operation) stage – primarily involves training, maintenance, and on-going support.

Depending on their nature Digital Initiatives may not follow these three noted stages in specific sequence, therefore, the decision to expense or capitalize should be based on the nature of the costs incurred and not necessarily the timing of their occurrence.

Capitalization

Capitalization should begin after the preliminary project stage is complete; confirmed by the appropriate documentation (e.g. Project Charter, Business Case, etc.) authorizing the project initiation.

Capitalization ends and amortization starts once the deployment and warranty-related activities have been completed and the appropriate documentation (e.g. Project Closure Report) has been completed acknowledging the composite tangible asset(s) has been delivered and is in service.

Costs for a Digital Initiative may be incurred over a substantial length of time (i.e. composite Tangible Capital Asset). Capital costs should be accumulated during this timeframe in a work-in-progress account.

Some Digital Initiatives are large and complex and may be implemented in phases or modules. If a module, once completed, is able to operate on its own (i.e. is not dependent on another module) then the module may be considered a tangible asset and amortized independently. If multiple modules need to work together in order to operate the end-solution, the entire solution is considered to be one tangible asset and the modules should be grouped and amortized collectively.

Costs incurred in the preliminary stage of a Digital Initiative are not capitalized. They are expensed as incurred. Preliminary stage costs generally include discovery-related activities such as documenting the problem, determining high-level system requirements, requesting proposals or information from potential external resources, analyzing alternatives, preparing a business case, determining the viability of the investment, and authorization of funding.

Costs directly associated with developing and implementing software/hardware should be capitalized. Costs within the development and/or acquisition stage generally include activities such as external resource costs (e.g., materials and services), costs to acquire software and/or any custom development, hardware acquisition and implementation, and salary and related benefits of internal resources performing activities within this stage.

Capitalization of Internal Resources

The University often uses internal resources to develop or construct a Tangible Capital Asset.

Project Charters are to include the estimated cost of required internal resources, however, there could be circumstances where additional unforeseen internal resources are required as the development and/or acquisition stage unfolds.

Internal resources assigned to a Digital Initiative for activities that could be capitalized include:

- employees assigned to a digital initiative without any back-fill in their home department.
- employees assigned to a digital initiative with a term back-fill position in their home department.
- travel costs directly attributable to a digital initiative

For accounting purposes, a back-fill is when an employee is temporarily removed from their home position assigned duties and those home position duties are performed by another employee.

Accounting for capitalization of Internal Resources

Capitalization of internal resources assigned and directly attributable to the delivery of a Digital Initiative should be capitalized on a monthly basis, with the credit to operations as follows:

Employees from within Information Technology (IT) department

- credit is recorded directly to the organization code in which the salary and benefit expense occurred.

Employees from departments (outside of IT) or faculties

- with a term back-fill position in their home department (to complete the normal tasks of those internal resources seconded to the Digital Initiative): an amount, based on hours worked by the internal resource on capitalizable activities, will be credited to the organization code in which the backfill salary and benefit expense occurred to offset the term position expense
- without any back-fill in their home department, an amount, based on hours worked by the seconded internal resource on capitalizable activities, will be credited to central salary and benefit expense as the home department's regular operating budget covers the existing position costs

The hours spent by internal resources assigned to a Digital Initiative directly attributable to the creation of a tangible asset should be tracked using a time-tracking system, preferably by Information Technology Services.

- The preferred method is the use of actual salary and benefits for the time worked (supported by time-tracking data). In cases where the project is complex and involves many internal resources, and/or spans multiple years, an alternative method is to use the position pay grid and budgeted benefit percentages.
- The staff time information is to be provided to Financial Services on a monthly basis for appropriate recording of project costs and the subsequent capitalization of these resources.

General decision checklist for the stages in a typical Digital Initiative development process by nature of costs:

	Capitalize	Operating Expense
Preliminary Stage		
Strategic decision to undertake project. ○ All costs (internally or by third parties)		X
Feasibility Study (including, but not limited to) ○ Current state assessment (high-level) ○ Formalized terms of reference ○ High-level requirements analysis ○ Conceptual formulation of alternatives ○ Evaluation of alternatives ○ Determination of existence of needed technology ○ Establishment of feasibility		X
Business Case analysis and preparation (including, but not limited to) ○ Recommend of and justify selected alternative ○ Cash flow projections ○ Impacts on programs and other relevant decision criteria		X
Request for proposal (including, but not limited to) ○ Preparation ○ Conducting supplier demonstrations (e.g. vendor / product review) ○ Selecting successful proposal		X

Restructuring of work force o Select staff members or consultants to head the development process		X
	Capitalize	Operating Expense
Business process reengineering ¹ o All costs (internally or by third parties)		X
Final selection of alternatives o Evaluating technology		X
Obtain necessary approvals o Direct costs		X
Development and/or Acquisition Stage		
Design or purchase of chosen application, including software configuration, software interface and detailed technical specifications	X	
Develop application (coding)	X	
Installation of hardware (required to make the software function as necessary)	X	
Installation of software application on server	X	
Testing, including parallel processing phase, to ensure the software is working as intended prior to implementation	X	
External contractor costs directly attributable to the development of the software	X	
Salary & benefit costs of existing internal staff assigned (seconded) and directly attributable (supported by documentation) to the project	X	
Salary & benefit costs of newly hired term staff assigned and directly attributable (supported by documentation) to the project	X	
Cost of software needed for data conversation between old and new system	X	
One-off licensing fee in order to use the software	X	
Data conversion processes o Includes purging or cleansing of existing data reconciliations for data migration (e.g. balancing of old data and data in new system)		X
Other administrative activities o Admin support in nature that is NOT directly attributed to preparing the software for use, hospitality and or promotional costs		X
Post-implementation (Operation) Stage		
Athabasca University "warranty period" o Costs by contractors and or staff member directly attributable, supported by documentation, to minor fixes in the developed software for a period (of usually one month) after go-live date.	X	
Training of Users		X

<ul style="list-style-type: none"> o End-user training for software after go-live and once in use, includes staff time, materials, and travel costs. 		
	Capitalize	Operating Expense
Maintenance and or annual license(s) <ul style="list-style-type: none"> o Upkeep, maintenance, repairs, or minor upgrade used to maintain functionality for remaining life (includes annual system patches, incremental reporting functions, additional access licenses, etc.) 		X
Ongoing vendor support agreements		X
Upgrade that increase functionality of existing software including major revisions <ul style="list-style-type: none"> o costs reasonably separable from maintenance costs (exceeding \$25,000) o costs <u>not</u> reasonably separable from maintenance costs (generally performed by existing staff members) 	X	X
Post implementation review <ul style="list-style-type: none"> o All costs 		X

Notes:

¹ Definition used by Government of Alberta Capitalization Policy (December 2017): Business process reengineering activities are those that occur when an entity must reengineer its business processes in order to use (to connect into) the new software rather than modify the software to accommodate (to connect into) its existing business processes.

Appendix C

September 2018

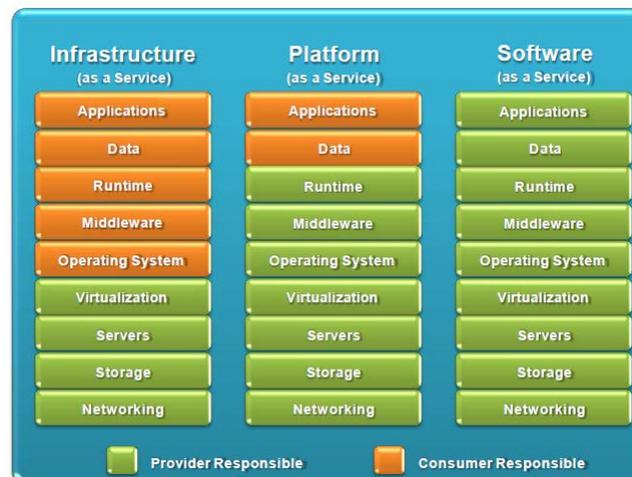
Additional Guidance on Digital Initiatives Involving Cloud Computing Arrangements

Types of arrangements

Cloud computing arrangements (CCA) refers to arrangements where software, platform, and or infrastructure is hosted by service provider (vendor or a third party) and are not stored on hardware owned or physically located on a University's premise. These arrangements entail using software products in which the University does not take possession of the software, rather it resides on the service provider's (vendor or a third party) hardware and the University accesses and uses the software on an as-needed basis over the Internet using web browser or via a dedicated line. There are typically three service models under a cloud computing arrangement:

- Software as a Service (SaaS) –a software distribution model where applications are hosted by the service provider and the customer purchases a service to access to the software through a network. The capability provided to the customer is to use the provider's applications running on a cloud infrastructure. The customer does not manage or control the underlying cloud infrastructure or even individual application capabilities, therefore maintains their own general in-house infrastructure and hardware.
- Platform as a Service (PaaS) –a model where the cloud provider delivers both hardware and software tools need for application development. The provider hosts the hardware and software such that the customer does not need to perform installation or purchase in-house hardware and software. The customer controls the deployed applications. This model does not replace the full infrastructure of the customer's needs.
- Infrastructure as a Service (IaaS) –a model where virtualized computing resources are provided over the internet. The third-party provider hosts the hardware, software, servers, storage and other components on behalf of its users. The customer does not manage or control the underlying cloud infrastructure but has control over deployed applications.

As an example only, the following is a table used by Amazon Web Services ^{C1} to show 'who does what' in the three common types of CCA



Capitalization

All cloud computing contracts should be forwarded to Financial Services in advance for review and determination on whether the proposed cost is capital, an expense, or a combination thereof.

To evaluate eligibility of capitalization of CCA, an assessment of the components of the contract and activities will be necessary, for example

Multiple Element Contract: it contains an agreement where the customer purchases both license of software, or software development, and has the provider deliver a service. The costs for the software or software development likely capitalized whereas the service delivery cost would be recorded as an expense to operations.

In regards to licensing of software or software development in a multiple element contract arrangement, the CCA must contain both of the following two criteria in order for the software to be eligible for capitalization.

- The University has the contractual right to take possession of the software at any time during the term of the CCA without significant penalty (e.g. without significant cost or continue to use the software separately without a reduction in utility or value); and
- It is feasible for the University to run the software on its own hardware, or to contact to another party (unrelated to the original service provider) to host the software.

Note there could be other types of fees, besides the software license, included in a CCA. Fees may be bundled together as one fee or individually quoted by the provider therefore close examination of arrangement details will be required. For instance, a monthly fee may include upgrade rights and support and maintenance services. Examples of fees include service, software upgrades, support and maintenance, consulting services, website development, software development or acquisition, infrastructure purchases and other costs. Assessment of up-front costs is essential because the accounting treatment will be different depending if the fees are considered to be a payment for a software license or a prepayment for services.

Costs incurred in a CCA that includes a software license will be allocated between the license and hosting elements, as applicable, based on the relative fair value of each element, and may require the use of estimates.

Service Contract: is an arrangement where the provider supplies time, effort, and or expertise instead of a tangible product (i.e. without a software license) should be expensed to operations. An arrangement that does not meet both criteria of a multiple element contract (outlined above) is considered a service contract.

Under a service contract the University may incur implementation and other up-front costs that directly or indirectly relate to the software service received over time, where the activities performed by the service provider (vendor), university employees or third parties.

The following are common activities related to a CCA in a service contract and guidance on recommended accounting treatment ^{C2}. This table may not address all situations therefore exercise of judgment is necessary. Costs related to these types of arrangements should be assessed on the individual facts and circumstances, including the nature of services and their timing, and supported by a documented analysis of capital versus expense factors and amounts.

Activity:	Recommended Accounting Treatment:
upfront payment to enhance the functionality of the software service	defer & capital
evaluate University's existing software and hardware compatibility with CCA service	expense
enhance or modify existing software and hardware that will be used under the CCA	capital
testing proper functionality of the software service	expense
business process reengineering	expense
report development	capital
employee training to use software service	expense
data conversion costs (reconcile new data to old system, purge existing data, create new data)	expense
Maintenance work performed by third party	expense
Rights to future prepaid upgrades/enhancements	defer
Overhead costs, includes general and admin costs	expense

It is essential to assess the types of services provided by a third-party contract (unrelated to the software service provider) activities that are directly or indirectly related to the CCA to determine applicable accounting treatment.

Amortization

The amortization of the resulting Tangible Capital Assets under a CCA should be based on the lesser of:

- Expected useful life ^{C2}
- Duration of the cloud computing contract ^{C2 & C3}

^{C1} source is Amazon Web Services 'Procurement of Cloud' presentation to Athabasca University (February 2018).

^{C2} source is Government of Alberta Capitalization Policy (December 2017) on recommended accounting treatment.

^{C3} there is evolving guidance from various accounting standards boards (not yet from PSAB) that suggests renewal options may be considered in determining the length of amortization period, for example FASB (*Subtopic 350-40 on Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*) uses wording 'including renewal period(s) that are reasonably certain to exercise'. In the absence of a more detailed accounting standard the guidance recommends referring to existing GAAP for CCAs that do not include a software license.