THE AGENCY FOR CO-OPERATIVE HOUSING

POLICY MANUAL

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1. Definitions

1.1 A "prepaid expense" is a future operating expense that has been paid in advance.

1.2 A "capital asset" is an item of tangible property that is not intended for sale during the normal course of business and has a useful life longer than one year. For the purposes of this policy, "capital assets" includes both purchased assets and assets acquired under capital leases where the lease satisfies the criteria for classification as a lease-to-own arrangement.

1.3 An "intangible asset" is an asset without physical substance that is not intended for sale during the normal course of business and has a useful life of longer than one year. Electronic data-processing software, including off-the-shelf software, custom software and virtual hardware, is considered an intangible asset.

1.4 A "betterment" is the enhancement of the service potential of a capital or intangible asset. Service potential may be enhanced when there is an increase in the asset's output or service capacity, associated operating costs are lowered, the life or useful life of the asset is extended, or the quality of output is improved.

2. Policy

2.1 Individual prepaid expenses of less than $2,000 are fully expensed when incurred. Individual prepaid expenses of $2,000 or more are recorded as an asset when paid and expensed to operations as the benefit is received.

2.2 Capital and intangible assets acquired at a cost of $5,000 or more are capitalized when purchased and amortized on a straight-line basis over their estimated useful life, as set out in this policy. Capital and intangible assets acquired at a cost of less than $5,000 are fully expensed in the year of acquisition.

2.3 The cost of a capital asset includes all costs associated with its acquisition, including delivery and installation costs.

2.4 When furnishings, equipment or software are acquired in bulk, the individual items purchased may be capitalized and amortized over their useful life, provided the following criteria are met:

(a) Identical items are purchased together;

(b) The cost of each individual item, as defined above, exceeds $2,000;

(c) The total cost of the order is $5,000 or more.

2.5 The carrying value of a capital or intangible asset is written down to its residual value, if any, when the asset is retired from service. The excess of the net carrying amount over any residual value is recognized as an expense in the statement of operations.

3. <u>Office Furnishings</u>

3.1 The cost of office furnishings is amortized on a straight-line basis at the following rates:

(a) one-twentieth in the year of acquisition;

(b) one-tenth in each of the nine years following the year of acquisition;

(c) one-twentieth in the tenth year following the year of acquisition.

3.2 Office furnishings are assumed to have no residual value at the end of the amortization period.

4. <u>Electronic Data-Processing Equipment</u>

4.1 The cost of electronic data-processing equipment is amortized on a straight-line basis at the following rates:

(a) one-sixth in the year of acquisition;

(b) one-third in each of the first and second years following the year of acquisition;

(c) one-sixth in the third year following the year of acquisition.

4.2 Electronic data-processing equipment is assumed to have no residual value at the end of the amortization period.

5. Other Office Equipment

5.1 The cost of other office equipment (e.g., photocopiers, printers, telephone systems), less any estimated salvage value, is amortized on a straight-line basis over five to seven years, depending on the estimated useful life of the asset.

5.2 Amortization expense is charged at half the normal rate in each of the first and last year of the amortization period.

6. Electronic Data-Processing Software

6.1 The cost of data-processing software purchased off the shelf is amortized on a straight-line basis at the following rates:

(a) one-sixth in the year of purchase;

(b) one-third in each of the first and second years following the year of purchase;

(c) one-sixth in the third year following the year of purchase.

6.2 The cost of software licences acquired on a subscription basis is expensed as incurred.

6.3 Provided all the criteria set out in the CPA Canada Handbook are met, the Agency capitalizes costs associated with the initial acquisition of custom data-processing software expected to provide future benefits, whether internally generated or incurred externally, until the software is substantially complete and ready for productive use. It is then amortized to income on the same basis as off-the-shelf software.

6.4 Later modifications that enhance the service potential of the software are considered a betterment and, if they meet the criteria set out in the CPA Handbook, are capitalized and, from the time they are ready for productive use, amortized to income.

6.5 The Director, Information Services is responsible for determining whether custom software meets the criteria for capitalization and when a modification constitutes a betterment.

6.6 Costs associated with exploring the feasibility of creating or bettering custom data-processing software are expensed as incurred.

6.7 Pilot-testing, training, maintenance and other continuing support costs associated with off-the-shelf and custom data-processing software are expensed as incurred.

6.8 Data-processing software is assumed to have no residual value at the end of the amortization period.

7. Leasehold Improvements

Leasehold improvements to Agency office premises and any financial assistance received from the landlord to reduce the cost of the improvements are amortized to income on a straight-line basis over the remaining term of the lease for the premises from the date at which the improvements are completed.

8. Impairment of Intangible Assets

Whenever the benefit provided by any intangible asset suffers a material decrease, the Agency will test the remaining unamortized cost of the asset for recoverability and determine whether an impairment loss should be recorded.

9. Review of Capital-Asset Amortization Rates

The amortization period of any capital asset may be reviewed and shortened as necessary, or the value of the asset written down, if the asset is damaged, is removed from service or becomes technologically obsolete.