

1 **Applications Environment (\$755,000)**
2

3 **Q. Provide an explanation as to why internal labour costs to test software are proposed**
4 **to be capitalized instead of treated as an operating expense.**
5

6 A. Internal labour costs associated with the testing of software prior to moving it to
7 production is an integral part of the software acquisition or upgrade, and is therefore
8 capitalized. Testing prior to production is directed towards ensuring that the benefits
9 expected from the software will be realized and that the Company's existing computing
10 environment will not be compromised as a result of new software installations. Once
11 software has been moved to production the internal labour cost associated with day-to-
12 day maintenance and support of the software is charged to the appropriate operating
13 expense account.