

**Appendix F**  
***Policy for Reporting Construction Work-In-Progress and Capitalization of NESDIS Satellites,  
Their Component Sensors and Related Assets***

**Summary**

This appendix outlines the CWIP policy as it applies to NESDIS CWIP activities, specifically those related to satellites, their component sensors, and related assets. The appendix is organized as follows:

- I. CWIP Activity Determination and Set-Up
- II. Transferring CWIP Activities within NESDIS
- III. Capitalization Framework
- IV. Cost Capitalization versus Expense
- V. Accounting and Capitalization Methodology for Satellite Series
- VI. Useful life
- VII. Salvage Value
- VIII. Closing a CWIP Activity
- IX. Glossary of Terms

**I. CWIP Activity Determination and Set-Up**

Per Section 2.2 of the NOAA CWIP policy it is the responsibility of the CWIP Project Manager to generate a CWIP Determination Letter (from the CWIP Project Manager and the CWIP Activity Manager that will be assigned to the project). The CWIP Determination Letter should be completed if there is the slightest possibility that a project could be classified as CWIP. The CWIP Project Manager or the CWIP Activity Manager forwards the completed Determination Letter to the Financial Accountability Branch (FAB) CWIP Program Manager. The FAB CWIP Program Manager reviews the completed Determination Letter and forwards it to either the NOAA Personal Property Management Branch (PPMB) or the Real Property Management Division (RPMD) as applicable, for their concurrence, signature and date. PPMB/RPMD returns the signed and dated Determination Letter to the FAB CWIP Program Manager. The FAB CWIP Program Manager sends the completely signed letter back to the CWIP Project Manager and the CWIP Activity Manager along with two forms: 1) Add/Modify a CWIP Activity Form (NOAA CWIP Database form), and 2) the CBS Project Code Request Form for the CWIP Activity Manager to complete and return.

Upon receipt of the completed forms, the FAB CWIP Program Manager reviews the information provided on both forms and checks for possible discrepancies. If acceptable, the forms are provided to the NESDIS Budget Execution Branch (BEB) staff for their review for accuracy and to establish the project codes in the Commerce Business System (CBS). BEB signs and dates the Add/Modify form and returns it to the FAB CWIP Program Manager along with screen prints of the project code data entries in CBS. The FAB CWIP Program Manager reviews the screen prints to identify possible data entry errors. Upon acceptance, the FAB CWIP Program Manager scans together all three documents 1) the completely signed and dated Determination Letter, 2) the signed and dated Add/Modify a CWIP Activity form, and 3) the CBS Project Code Request Forms as one .pdf document and sends the file to NOAA Finance Office (and a cc: to the CWIP

Project and Activity Managers) with a request to approve and activate the newly established CWIP project codes and to add the new CWIP activity to the NOAA CWIP Activity database. A confirmation is also requested.

NOAA Finance Office – Financial Statements Branch (FO-FSB) staff approves and activates the CWIP/IUSD project codes in CBS and adds the activity to the NOAA CWIP Activity database. An activity number is assigned to the activity, and FO-FSB provides that number to the FAB CWIP Program Manager, along with the confirmation that project codes are activated and ready for use. The FAB CWIP Program Manager provides the confirmation and the .pdf file to the CWIP Project and Activity Managers. The NOAA Finance Office adds the activity to the SARB (Satellite Accounting Review Board) schedule and provides the CWIP Activity Manager with the date that the new activity will be reviewed, and in turn the CWIP Activity and Project Managers are notified so that they can prepare a SARB Slide Deck for briefing.

## **II. Transferring CWIP Activities within NESDIS**

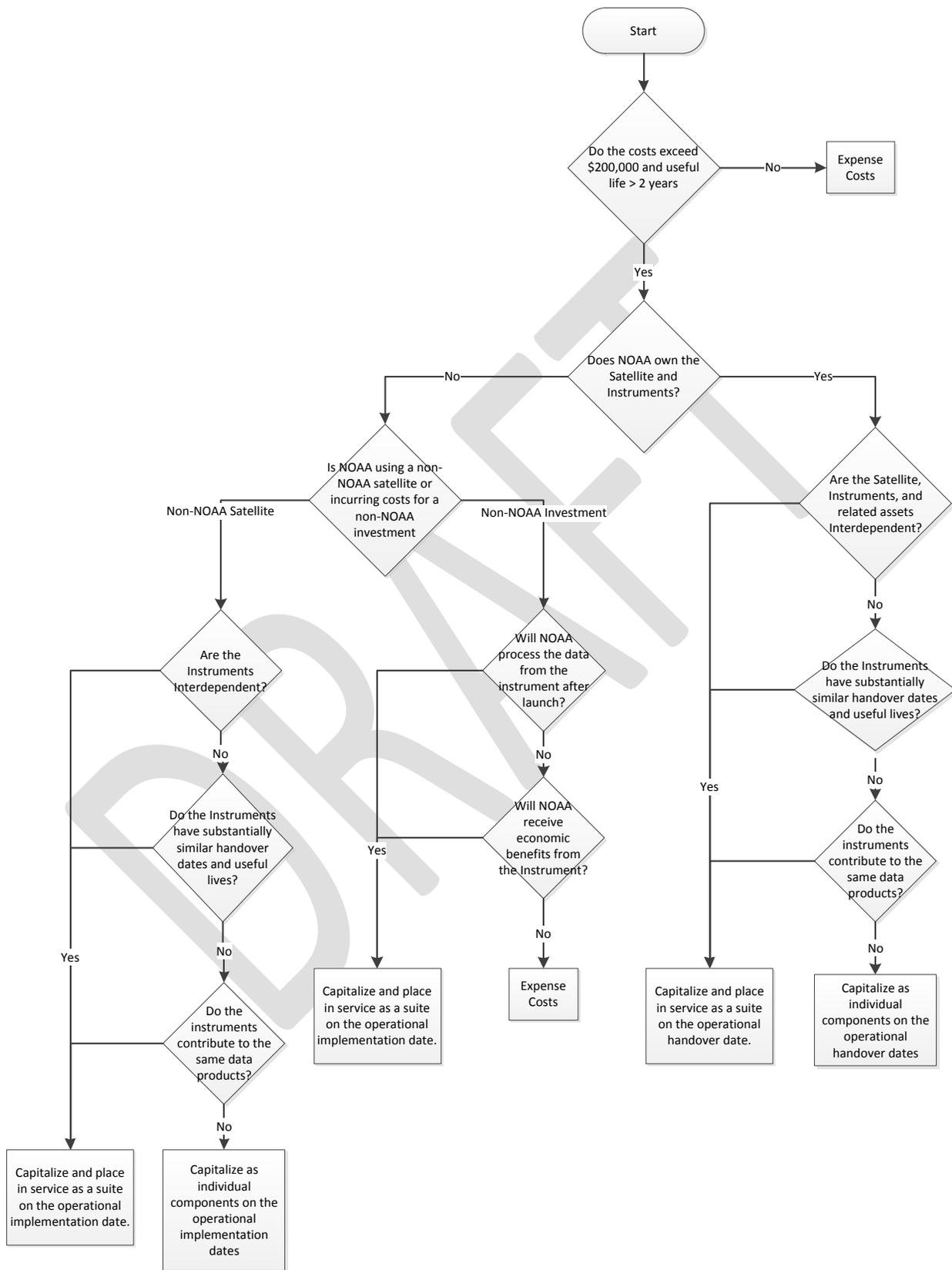
If the management and control of a CWIP activity is transferred between program offices within NESDIS, it is the responsibility of the current CWIP Activity Manager to forward copies of their documentation file to the gaining Activity Manager for review. Discrepancies or missing documentation needs to be resolved by the current Activity Manager before the gaining Activity Manager accepts the role. If the documentation cannot be physically relocated to the new Activity Manager, the two managers (current and gaining) agree upon a solution to where the gaining Activity Manager has access to the documentation, and is provided with all future documentation as noted in the Section 5.10 of the NOAA CWIP Policy.

Once the gaining Activity Manager has accepted the role, the Financial Accountability Branch (FAB) CWIP Program Manager is notified either by email or by completing the Add/Modify a CWIP Activity Form providing the activity information section and then only the information that has changed. FAB CWIP Program Manager notifies NOAA Finance Office to make changes to their CWIP activity database accordingly.

## **III. Capitalization Framework**

The following capitalization framework provides guidance for CWIP activities that are developing satellite assets and related CWIP activities. Accounting for satellites is highly complex, development may span many years, and involves significant contracts and arrangements with contractors and other Government agencies. As such, each satellite development effort (CWIP activity) should be evaluated based on the activity's specific facts and circumstances. The FMC will work in conjunction with NESDIS HQ and NOAA Finance to document and analyze the factors leading to whether the CWIP activity should be capitalized. The factors include Costs Incurred, Ownership, and Suite vs. Component.

The following decision tree is a basic analysis to assist in the capitalization process; situations may arise in the future that require additional factors to be considered in order to arrive at the appropriate accounting treatment. As situations occur and activities evolve the framework in this appendix may be updated.



#### **IV. Cost Capitalization versus Expense**

Per section 5.1 of the NOAA CWIP policy, all costs incurred to bring a NESDIS asset to a form and location suitable for its intended use shall be capitalized. As a general rule, if an asset cannot be constructed without a particular cost, then that cost should be considered as necessary to bring the asset to a form and location suitable for its intended use, and therefore, should be capitalized.

The following list provides additional guidance for determining whether to capitalize or expense costs related to NESDIS satellites and their component sensors.

- A. NASA and NASA's Contractor Costs: NASA serves as the acquisition agent for the construction of JPSS and GOES satellites and instruments. NASA invoices the programs on a monthly basis through the IPAC system. The following provides additional guidance for certain NASA invoiced costs:
  - 1. Education and Outreach: Cost to educate students, teachers, and the general public about meteorology, space science, earth-observing satellites, weather phenomena and the advanced capabilities and benefits the missions will provide. Education and outreach costs should be expensed.
  - 2. Web and Multimedia Activities: Cost of materials and activities that are useful for anyone interested in learning more about weather forecasting applications and weather-related safety issues. This includes Goes-R web site, posters, K-12 student teacher programs, and training aides. Web and multimedia activities costs should be expensed.
  - 3. Chief Scientist Support Costs: Cost to support the GOES-R Chief Scientist, Science Effort. These costs are charged through NASA. Chief Scientist support costs should be expensed.
  - 4. Operations and Maintenance Costs: Operations and maintenance costs are included in NASA IPAC costs and initially recorded in CWIP. Operations and maintenance costs should be expensed and should be transferred to non-CWIP annually (at a minimum).
- B. Late Payment Fees: Fees for late payments should be expensed.
- C. Launch Delays: Costs to maintain flight ready status and on-going development costs during launch delays will be capitalized.
- D. Storage Costs: In accordance with SFFAS 6, paragraph 26, storage costs during development, including during launch delay scenarios, shall be capitalized.
- E. Testing Costs: All testing costs during the development phase, including those related to maintaining flight ready status and testing to prepare for and successfully launch an asset(s), should be capitalized.

Instances of Non-compliance with the NOAA CWIP Policy:

In certain limited cases, immaterial costs, which prove difficult or cost prohibitive to identify or extract from commingled costs in order to properly capitalize or expense those costs, may be left uncorrected. The CWIP Activity Manager should identify such costs to NESDIS FAB. NOAA FO-FSB must approve NESDIS leaving these immaterial costs uncorrected.

**V. Accounting and Capitalization Methodology for Satellite Series**

The following cost accumulation and capitalization methodology provides guidance for NESDIS CWIP activities that are related to the development of satellites, instruments, and other similar assets. This methodology has been used on NESDIS Polar and Geostationary satellites constructed in 1997 and after, and on the JPSS CWIP activity, this methodology will also be used for any satellites constructed and capitalized after the SNPP instruments. The SNPP instruments and prior assets capitalized under the JPSS CWIP activity were identified at a component level because JPSS was restructured from a tri-agency program to a two agency program, and costs for individual components for the various agencies needed to be identified.

NESDIS will estimate the total projected costs to be capitalized for the CWIP activity and prorate this estimated cost (less the costs already capitalized) over the number of assets in the CWIP activity remaining to be capitalized. This estimate will provide the capitalization amount for the asset being placed in service. The costs to be capitalized for satellite assets should be determined using the formula below.

**Sum of:**

1. NASA Costs
  - a. Total Budgeted NASA Costs related to the development of the series of satellite assets  
**minus**
  - b. Operations and Maintenance (OM) costs  
**minus**
  - c. Non-GAAP compliance costs
2. NOAA Costs
  - a. NESDIS internal costs (direct and indirect) that can be attributed to the cost of the construction of the asset(s)

**Less:**

3. Costs already capitalized

**Divided by:**

4. Number of satellites/assets remaining to be capitalized

**Add:**

5. Additional costs not included in NASA IPACS (i.e. other development contractors)

**Equals:**

## 6. Total cost for an individual asset.

The capitalized amount of the last satellite/asset will include all remaining actual cost in the CWIP activity. Therefore, the cost of all satellites/assets in a CWIP activity are recorded at estimated cost, except for the last, which is adjusted up or down to recognize the actual costs. This procedure is necessary because the cost of the total CWIP activity will not be known until all cost documentation is received. When the last asset is declared to be operational, accruals will be processed to move all remaining undelivered orders into CWIP cost.

Documentation relating to the above procedures should be maintained. In addition, consistent with Section 5.11 of the NOAA CWIP policy, detailed supporting documentation should be maintained and reviewed (e.g., EVM reports, detailed 533s and 1080s, ARRPT reports, etc.).

## **VI. Useful Life**

The FMC, in coordination with NESDIS HQ, NOAA Finance, and NOAA Personal Property Management Branch, will determine and document the useful life of a satellite asset considering the following criteria:

- Intended period of use (expected period of benefit)
- Expected funding for future operations
- Mission life
- Design life
- Historical performance of similar assets
- Other factors as necessary

## **VII. Salvage Value**

Salvage value is defined as the estimated value that an asset will realize upon its sale at the end of its useful life. As the majority of the NESDIS satellites and instruments are launched into space orbit (and not retrieved from space orbit), there will be no resale or salvage value at the end of their useful life while in space. In order to properly set the salvage value in Sunflower, NOAA's Personal Property system, NESIDS has received a waiver from the Department of Commerce (DOC) allowing NESDIS to set the salvage value to zero for a launched satellite or instrument.

Satellites or instruments that are used as prototypes or backups may have a salvage value set to the resale of the scrap metals and parts as long as they are not put into orbit. The scrap values should be taken from a reliable source.

As satellites and instruments are manufactured and launched, the Property Custodian should review all capitalized assets for reasonable salvage values on an annual basis.

## VIII. Closing a CWIP Activity

A CWIP activity can be closed when undelivered orders equal \$0, unpaid costs equal \$0, no further costs are expected, and there are no uncapitalized costs.

A request to close the activity should be sent to the FAB CWIP Program Manager and should be accompanied by a CA500D report showing \$0 undelivered orders, \$0 unpaid costs, \$0 uncapitalized costs. In addition, the request should include a statement that no further costs are expected.

The FAB CWIP Program Manager will notify FO-FSB via email so that the CWIP activity can be designated “completed” in the CWIP Activity Database, thereby removing the CWIP activity from the database reports.

## IX. Glossary of Terms

- **Economic benefit:** Assets that provide financial or informational benefit to NOAA or NOAA’s primary users.
- **Instrument:** Technology used to collect data for missions
- **Interdependent:** Assets that operate in conjunction with each other, or where primary users require data from multiple instruments on the Satellite to satisfy their intended use.
- **Launch Vehicle:** A rocket used to carry a payload from Earth's surface into outer space, and towards the required orbit for intended use of the payload assets.
- **Non-NOAA Investment:** NOAA incurs costs to support another entities asset in providing necessary data to NOAA. The types of costs NOAA could incur include refurbishment costs, accommodation costs, etc.
- **Non-NOAA satellite:** Satellite owned by another entity that has NOAA owned instruments attached.
- **Salvage Value:** The estimated value that an asset will realize upon its sale at the end of its useful life.
- **Satellite:** A vehicle, vessel, or machine designed to fly in outer space that houses and transports assets/instruments to the mission specified orbit and collects mission data at the mission required orbit.
- **Useful Life:** The normal operating life in terms of utility to the owner.