U.S. Department of Commerce
National Oceanic and Atmospheric Administration

ACCOUNTING FOR REAL PROPERTY POLICIES AND INTERNAL CONTROL PROCEDURES

US Department of Commerce
National Oceanic and Atmospheric Administration (NOAA)
Real Property Internal Control Policy
(Revised: 06/30/2009)

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Attachment 1-Supporting Documentation Rationale Sheet
http://www.corporateservices.noaa.gov/~rpflo/docs/filesupp.pdf

Attachment 2-Income Approach to Fair Market Value
http://www.corporateservices.noaa.gov/~rpflo/docs/IncomeApproach.pdf

Attachment 3-NOAA Real Property Lease Determination Worksheet Part A (effective 1/1/06)
http://www.corporateservices.noaa.gov/~rpflo/docs/ldwa.xls

Attachment 4-NOAA Real Property Lease Determination Worksheet Part A Handbook
http://www.corporateservices.noaa.gov/~rpflo/docs/ldwh.pdf

Attachment 5-CWIP Determination Letter Template
http://www.corporateservices.noaa.gov/~finance/CWIP.html

Attachment 6- Nominal Treasury Interest Rates
http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.aspx

Attachment 7-Federal Management Regulations, Part 102-75—Real Property Disposal
http://www.gsa.gov/Portal/gsa/ep/channelView.do?pageTypeId=17113&channelId=-24559&specialContentType=FMR&file=FMR/FMRTOC102-_75.html#wp436256

Attachment 8 – Engineer's Memorandum to the File
http://www.corporateservices.noaa.gov/~rpflo/docs/attachment5memotfile.pdf

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Documentation Hierarchy for Real Property Files

Some real property files contain different source documents that provide conflicting information concerning real property acquisition values and dates. To rectify this problem, NOAA has established a hierarchy outlining the order of precedence by which sources of supporting documentation would be accepted as accurate.

Real Property obtained prior to Fiscal Year 1994

For all properties acquired during FY 1993 and prior, the files should contain the Supporting Documentation Rationale Sheet (See Attachment 1) with the appropriate supporting documentation.

1) If additional information exists in the files which contradicts the supporting documentation behind the rationale sheet, a memo should be included stating which document is most reliable and why.

2) Some files contain several documents supporting the acquisition date, acquisition cost, and ownership; and agreement is not always evident. The files should contain a memo clarifying which documents are the bases for the date of the acquisition and the acquisition cost and why they are the most reliable.

Unsupported Values

Leases or assets with unsupported values will be tracked with a hard copy file and noted in Federal RPM with a tickler comment. This file should agree to the amount in the property file. The property and the amount will be reported to the Silver Spring Headquarters office. The Silver Spring Headquarters office will assemble the data and forward the information to the Finance Office to be reported in the footnote disclosure.

Owned Real Property obtained subsequent to Fiscal Year 1993

The files for real property acquired subsequent to Fiscal Year 1993 should contain the deed for land. For buildings and structures, the file must contain the beneficial occupancy date and the final invoices or other documentation of acceptance.

Files containing Other Agreements

If the file contains other types of agreements (i.e. mineral rights, oil/gas rights, grazing rights, NOAA is the lessor, etc.), supporting information must be included in the file to properly document these other agreements.

Declaration of Taking

If the land was acquired via “Declaration of Taking,” then the acquisition date is the date that the court signed the settlement document. Also, the acquisition cost includes all costs paid per the settlement document or the declaration, plus any additional costs to acquire the land including preparation costs.

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Classifying Property as Real or Personal

Background

The chief determination in classifying property as real or personal is whether or not they constitute a temporary or permanent improvement to the land. 41 CFR Sect. 101-47.103-12(5)(b) (Disposal of real property) excludes “prefabricated movable structures” from the definition of real property when slated for disposal. Trailers, garages, modular buildings, and generators meet the definition of a prefabricated structure or item and should be classified as personal property.

NEXRAD Towers and Upper Air Inflation Structures

NEXRAD towers should be classified as personal property. Upper Air Inflation Structures are to be recorded as personal property if NOAA owns the asset. If it is not possible to determine the cost of an Upper Air Inflation Structure, the estimate developed by the Eastern Region – Kansas City engineering office will be used. The file should contain the memo documenting the estimate and the reason actual costs could not be provided.

If an Upper Air Inflation Structure is part of a lease with a Weather Forecast Office (WFO) it will be recorded by real property as part of an operating or capital lease. KPMG has agreed with this treatment based on discussions held at the Real Property Training Conference in Seattle, Washington during June 2-4, 1998. This policy will require disclosure in the lease footnote.

Trailers, Garages, and Modular Buildings

As noted above, trailers, garages, and modular buildings, and similar prefabricated structures are to be classified as personal property.

Generators, Wiring, and Cabling

Generators are to be considered personal property; they are by definition auxiliary, supplemental, temporary power sources for a facility. They are mounted on their own pads, in their own housing, and usually have minimal connection points to the building’s systems.

Wiring and cabling improvements, such as upgrades to electrical, telephone, or computer systems, typically do not extend the useful life of a real property asset. Unless installed during the initial construction of a building, in which case they should be included in the acquisition cost, these improvements will be expensed. These improvements are usually abandoned when no longer needed.

Security Equipment

Security equipment, which includes cameras, closed circuit televisions, magnetic card readers, computer equipment, and building access control systems, is considered personal property.

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Useful Lives

Purchases of $200,000 or more, with an estimated useful life of 2 or more years are capitalized. As the useful lives of these assets decline through either physical wear and tear from operations, and/or deterioration, they are depreciated. SFFAS #6 defines useful life as the "normal operating life in terms of utility to the owner." Moreover, it is the period that the property is expected to be economically useable by the entity.

The useful life of an asset can be based upon the "IRS, Recovery Period for Common Assets" and the guidelines from OMB Circular A-76 Supplement, Appendix C that is used for capital improvements.

• Buildings and Structures	
-Temporary Buildings and Structures	10 Years
-Wood Building and Structures	20 Years
-Metal and Prefab Buildings/Structures	30 Years
-Masonry Buildings and Structures	40 Years
• Construction Materials	40 Years
• Electrical Power and Distribution Systems	15 Years
• Plumbing Fixtures and Accessories	15 Years
• Heating, Air Conditioning and Ventilation	10 Years
• Industrial Boilers	10 Years
• Dryers, Dehydrators, and Anhydrators	10 Years
• Architecture and Related Metal Products	10 Years
• Towers (metal)	40 Years

If the asset has special considerations or is not listed, a memorandum from an engineer should be in the file documenting the useful life.

Leasehold Improvements

Improvements to leased property should be capitalized if the improvements meet the capitalization criteria. NOAA should depreciate these costs over the remaining life of the lease or the useful life of the leasehold improvement, whichever is shorter. In Federal RPM the depreciation record should be entered via the lease record (see ~~deskguide~~desk guide for entering leasehold improvements for more information). If the leasehold improvement is an entire building/structure built on leased land, a separate building/structure record should be entered with $0 acquisition cost. This will allow the building to show separately for the annual inventory validation rather than being "hidden" in the lease record. The acquisition cost and depreciation data for the financial statements will be properly reported as a leasehold improvement.

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Capitalization Threshold

NOAA capitalizes all real property items with acquisition costs of $200,000 or greater. However, this does not apply to land assets, as land does not depreciate, so land will always be recognized as a capital asset and reported on the balance sheet. The current capitalization amount was set in June 1998. Prior to June 1998, the capitalization threshold was $25,000. The Federal RPM property module shows the acquisition date and cost of all real property items owned by NOAA regardless of the acquisition cost.

Effective with the FY02 Year End Close, NOAA must report all NOAA owned land assets regardless of acquisition cost along with all other real property items whose acquisition cost is $200,000 or greater. With the exception of land (which does not depreciate), the depreciable basis for all real property items equal to or greater than $200,000 will be the original acquisition cost of the item and the original acquisition date, except when the assets are acquired from other Federal agencies as described in the Transfer of Real Property to NOAA from another Federal Entity section of this policy.

Assets are to be depreciated over their useful lives by the straight-line method. Accepted useful lives are contained in the Useful Lives section of this policy.

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Deferred Maintenance

Definition

"Deferred Maintenance" is maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period.

"Maintenance" is described as the act of keeping fixed assets in acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

Measurement

Amounts reported for deferred maintenance will be determined using the "Condition Assessment Survey" method. A condition survey is a periodic inspection of real property to determine its current condition and to estimate costs to correct any deficiencies.

Condition Assessment Survey

A Condition Assessment Survey requires the periodic inspection of PP&E to determine their current condition and provide a cost estimate to make necessary repairs.

Major Classes of Real Property

For the purposes of this policy, the major classes of real property are:

- Buildings
- Structures
- Land
- NOAA-controlled capital leases-when NOAA has the financial responsibility for maintenance of the real property

Reporting

The following information shall be presented as required supplementary stewardship information:
Identification of each major class of asset for which maintenance has been deferred.

- Method of measuring deferred maintenance for each major class of PP&E.
- If the Condition Assessment Survey Method of measuring deferred maintenance is used, the following must be presented:

  - description of requirements or standards for acceptable operating condition
  - any changes in the condition requirements
  - Asset condition and a range or a point estimate of the dollar amount of maintenance needed to return it to its acceptable operating condition.

Method of Reporting

Quarterly, a data call is sent to the Project Planning and Management Division requesting a report on the status of NOAA's real property deferred maintenance. Upon receipt of the data call, Project Planning will request deferred maintenance reports from the Project Planning field personnel. These reports will be due back to Real Property two weeks prior to the due date assigned by NOAA's Finance Office.

The reports will include details associated with the addition of any new deferred maintenance projects, or the completion or deletion of an existing deferred maintenance project. Specific details to be included are the origin of any new projects, contact names, source of any cost estimates, and explanation for any change in the cost estimate. Hard copies of supporting documentation associated with quarterly report additions, deletions, or other changes will be maintained at the field site in a separate, auditable file, by the Project Planning employee assigned responsibility for the quarterly deferred maintenance report.

Criteria for Inclusion

Deferred maintenance determination will only be made for:

- NOAA-owned properties meeting the $200,000 capitalization criteria
- NOAA-controlled capital leases when NOAA has the financial responsibility for maintenance to the real property

- Individual deferred maintenance projects with a cost less than $50,000 will not be considered.

Requirements or Standards for Acceptable or Operating Condition

Real property assets will be evaluated utilizing the following standards:

- Applicable building codes, and/or
- building cost standards.

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Leases

A lease is defined as an agreement conveying the right to use property, plant, or equipment (land, depreciable assets, or both), usually for a stated period of time, including rights of entry, interagency service agreements and memorandums of understanding (MOUs). Leases include licenses and permits.

This section of NOAA's Real Property Internal Control Policy provides an overview of the Real Property Internal Control Policy for leases, including (1) treatment of leases for budgeting requirements (as mandated under OMB A-11); (2) treatment of leases for financial reporting and disclosure requirements (as mandated by FASAB); and (3) a summary of the lease determination worksheet that assists in the proper classification of new leases under both sets of guidance. This section, however, is **not** intended to provide all the policy and procedures for the budgeting of leases. Please refer to the Lease Handbook for the complete policy and procedures.

The following table summarizes the types of leases under budgetary and accounting laws and regulations. The table also examines the criteria used to determine the type of lease and the differences between the budgetary and accounting criteria.

	Budgetary (OMB A-11)	**Accounting (FASAB/FASB)**
Types of Leases	• Capital • Lease-Purchase • Operating	• Capital • Operating
Criteria for classification of leases	• Transfer of Ownership	• Transfer of Ownership
	• Bargain Purchase Option	• Bargain Purchase Option
	• Lease Term is equal to or greater than 75% of the estimated remaining economic useful life	• Lease Term is equal to or greater than 75% of the estimated remaining economic useful life
	• Present Value of the Minimum Lease Payments equals or is greater than 90% of the fair value of the asset.	• Present Value of the Minimum Lease Payments equals or is greater than 90% of the fair value of the asset.
	• Asset is a special purpose asset.	
	• Asset does not have a private sector market.	

Budgeting Requirements

For budgeting purposes, there are three main types of leases: capital, operating, and lease-purchase. Lease-purchases are further broken down into lease-purchase with substantial risk and lease-purchase without substantial risk.

- Lease-purchase means a type of lease in which ownership of the asset is transferred to the Government at or shortly after the end of the lease term.
- Capital lease means any lease other than a lease-purchase that does not meet the criteria of an operating lease.
- Operating lease means a lease that meets all the criteria listed below. If the criteria are not met, the lease will be considered to be a capital lease or a lease-purchase, as appropriate.
    - Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease term.
    - The lease does not contain a bargain-price purchase option.
    - The lease term does not exceed 75 percent of the estimated economic life of the asset.
    - The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the beginning of the lease term.
    - The asset is a general purpose asset rather than being for a special purpose of the Government and is not built to the unique specification of the Government as lessee.
    - There is a private market for the lease.

(The above definitions of the three types of leases are from OMB Circular A-11, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*.)

Fiscal Funding or Cancellation Clauses in Leases

As discussed in Financial Accounting Standards Board (FASB) Technical Bulletin No. 79-10, Fiscal Funding Clauses in Lease Agreements, paragraph 3:

> Paragraph 5(f) of Statement 13 requires that a cancelable lease, such as a lease containing a fiscal funding clause (a clause that generally provides that the lease is cancelable if the legislature or other funding authority does not appropriate the funds necessary agreement), be evaluated to determine whether the uncertainty of possible lease cancellation is a remote contingency. That paragraph states that "a lease which is cancelable (I) only upon occurrence of some remote contingency . . . shall be considered 'non cancelable' for purposes of this definition" of lease terms.

Cancellation clauses should not prohibit lease agreements from being capitalized. Therefore, if a lease agreement meets all other capitalization criteria except for the non-cancelable criterion, the likelihood of the lease being canceled must be evaluated. If the possibility of cancellation is remote, the lease should be capitalized.

If a lease will be terminated prior to the final expiration date, the real property chiefs will verify that the lease expiration date in Federal RPM has been changed to reflect the new expiration date. Files containing spreadsheets must be changed as well so that future lease payments will not be overstated. If the total lease payments for the terminated lease were $200,000 or more, the lease should be archived by the respective Real Property Regional Office in the fiscal year following the termination. If the total lease payments were less than $200,000, it should be archived by the end of the following quarter in which it expires. The Regional Office will notify the Silver Spring Headquarters office of the expiration of leases over the $200,000 threshold in the quarterly data call.

Financial Reporting and Disclosure Requirements

For accounting purposes, leases are classified as either capital or operating. Per FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, "capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following four criteria, the lease should be classified as a capital lease by the lessee. Otherwise, it should be classified as an operating lease.

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
- The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost**s**, equals or exceeds 90 percent of the fair value of the lease property.

The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property."

FASAB defines an operating lease as "an agreement conveying the right to use property for a limited time in exchange for periodic rental payments."

<u>Leases Involving Land Only</u>
If land is the sole item of property leased, and either of the first two capital lease criteria applies, it is recorded as a capital lease. Otherwise, it shall be treated as an operating lease. Because land is not depreciated, the economic useful life is difficult to determine; thus, only the first two criteria are considered for parcels of land.

<u>Leases Involving Land and Buildings</u>
If either of the first two capital lease criteria is met, the lessee shall separately capitalize the land and building. For this purpose, the present value of the minimum lease payments after deducting executory costs, including any profit thereon, shall be allocated between the two elements in proportion to the fair market values at the inception of the lease. The amount allocated to the value of the building shall be amortized over the lease term. Parking lots should be considered in the building or structure cost.

<u>Land Value is Less than 25% of Total FMV</u>
If neither of the first two criteria for capital leases is met, and if the fair market value of the land is less than 25% of the total fair value of the leased property at the inception of the lease, the lessee shall consider the land and building as a single unit and apply the third and fourth criteria for capital leases. If either criteria 3 or 4 apply, the lease shall be considered capital, with both the land and the building being amortized over the term of the lease.

<u>Land Value is more than 25% of Total FMV</u>
If the value of the land is greater than 25% of the total fair market value of the leased property, then the land and building need to be considered separately for the third and fourth capital lease criteria. If criteria 3 or 4 apply, the lease is capital and the building will be amortized over the term of the lease. Otherwise, it should be considered an operating lease. **The executory costs**

will be allocated entirely to the building.

Buildings constructed on a leased parcel of land are to be tracked separately from the land, if the building is a capital lease and the land is an operating lease (or vice versa). The building should be given the same lease numbering as the land, with the designation "-A" added to the end of the number.

Discount Rate

The discount rate to be used in determining the present value of the minimum lease payments normally would be the lesser of 1) the lessee's incremental borrowing rate, or 2) the lessor's implicit rate computed in the lease. For Federal Government, the lessee's incremental borrowing rate shall be the Treasury borrowing rate for securities of similar maturity to the term of the lease.

For all leases in effect prior to FY 1998, a copy of the Federal Reserve Statistical Release must be in the file to support the Treasury bond yield rate used in the spreadsheet calculation.

For leases in effect in FY 1998 and after, the Nominal Discount Rate on Treasury Notes and Bonds of Specified Maturities rates should be used. The Nominal Discount Rate is contained in OMB Bulletin A-94, and the current rate is located on the Internet at:

http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.aspx

The rates are updated annually to reflect the rate for the upcoming year. The rate used should match the length of the lease and the year of the inception of the lease. If the rate is not given, then the rate should be determined by interpolation (average of rates given to approximate appropriate rate).

Documentation supporting the rate used should be maintained in the lease file.

Fair Market Value

OMB A-11, Appendix B, states that "in the case of real property**,** the fair market value should be based on current market appraisals. If no asset exists, the fair market value of the proposed asset should be based on the Government's estimate of the private developer's cost to construct the leased facility. The estimate should only include the costs the Government would normally pay the private sector for such a facility. These costs include the total direct and indirect costs of the facility, including land, design, site improvements, and management costs. Fair market value should not include the value of features or enhancements that were built or added for the Government's unique needs or special purposes or features or enhancements that will be paid for by the government in lump sum."

Therefore, if the leased property is new construction, obtain the lessor's costs to construct for fair market value.

If the total lease payments (excluding executory costs) are equal to or greater than $75,000, then an appraisal is required to determine the fair market value of the leased property.

However, if the total lease payments (excluding executory costs) are less than $75,000, the fair market value of the leased property should be determined using one of the following in the hierarchy of documentation sources.

1. A signed and dated appraisal performed by an independent party as of the inception date of the lease.
2. A letter from the lessor stating the fair market value of the leased property as of lease inception or sufficient information to determine fair market value.
3. Tax records may be used to determine FMV if the tax record is dated at least one year after the lease inception.
4. An income approach is acceptable to use to determine the FMV unless NOAA is the sole occupant of the rental space/tower. To calculate the FMV using the income approach, information must be obtained on the range of rates being charged by the lessor. The methodology is detailed in Attachment 2. .

In cases where NOAA leases part of a larger building, the fair market value of the entire building should be obtained and a percentage applied to obtain the fair market value of the leased space. For example, if NOAA rents 10,000 gross square feet in a building with 50,000 gross square feet, and the building has a fair market value of $9,000,000, the fair market value of the leased space would be $1,800,000. (10,000 SF / 50,000 SF times $9,000,000 = $1,800,000)

When the property being leased is space for an antenna to be placed on either a roof or tower and does not represent a significant portion of the facility, it is unlikely that a meaningful appraisal is obtainable. In this circumstance, the income approach is the preferred method of estimating fair market value for applying the 90% of fair value criterion. The methodology is detailed in Attachment 2.

Supporting documentation of how the fair market value was estimated or calculated (e.g. appraisal) should be maintained in the lease folder. Features or enhancements that were built or added for the Government's unique needs or special purposes should be excluded from the calculation of FMV. Also, when calculating the FMV, consider the percentage of the building/structure that is being leased if it is not the entire building/structure.

Lease Determination Worksheet

The <u>NOAA Real Property Lease Determination Worksheet Part A and Part B</u> (see Attachment 3) is used to properly budget and account for leases. Part A determines the proper lease classification (operating, capital, or lease-purchase) for budgeting purposes, and Part B determines the proper lease classification (capital or operating) for accounting purposes. **A new Lease Determination Worksheet, incorporating OMB A-11 considerations, was implemented effective January 1, 2006.**

<u>Exemptions</u>
A lease determination worksheet should not be completed for GSA leases. NOAA enters into lease agreements with the General Services Administration (GSA) for the use of building space and/or land. These are referred to as GSA assignments and are only applicable in real property. All GSA assignments should be classified as operating.

In addition, a lease determination worksheet should not be completed for gratuitous leases, no cost leases, or leases costing $1.

Supporting Documentation
For all leases not excluded above, a lease determination worksheet must be completed and maintained in the lease file. **Documentation that is required to be filed with the lease determination worksheet includes support for the fair market value, support for the lease payment stream (especially if not easily determinable from the lease), support for the remaining economic useful life, support for the interest rate, and any additional information that was used to complete the lease determination worksheet. If any of the information was provided verbally, the source should be documented. Include name, title, company, and contact information (e.g. phone number, email address).**

The lease file should contain the lease determination worksheet with the above-noted supporting documentation. Copies of those leases found to be capital for accounting purposes (Part B of the lease determination worksheet) will also be maintained at the Silver Spring Headquarters office.

If necessary, an additional memo should be placed in the lease file with the lease determination worksheet to explain in more detail how the determination of capital or operating lease was made, how the FMV was calculated, how the land and building portions of the lease, if appropriate, have been separated, etc. Full instructions for completing the lease determination worksheet are given in the Real Property Lease Handbook (see Attachment 4).

A Lease Determination Worksheet dating from the inception date of the lease must be used for initial determination of a capital or operating lease and must remain in the file for the remainder of the lease. If the initial capital lease spreadsheet is incorrect as a result of new information or the discovery of an error and the spreadsheet has been revised, the revised depreciable basis must be verified against the Federal RPM depreciation module to ensure accuracy, and, if not in agreement, Federal RPM should be updated.

Federal RPM
Leases should be entered in Federal RPM within 30 days of the award date.

Regardless of inception date, capital leases will be assigned purchase object class codes of 32-30-00-00 for building/storage leases and 32-31-00-00 for land leases.

If a lease is determined to be capital for budgetary purposes and the total lease payments exceed $200,000, Lease Determination Worksheet Part B will be completed by the Silver Spring Headquarters office.

Lease Review Board
The supporting documentation is to be included with the lease determination worksheet when the package is submitted for review by the Lease Review Board.

OMB A-136 Financial Reporting Requirements - Leases

FASAB, SFFAS No. 5 discusses the proper amount to be recorded by the lessee as a liability under a capital lease. SFFAS No. 5 requires that "during the lease term, each minimum lease payment must be allocated between a reduction of the obligation and interest expense so as to produce a constant periodic rate of interest on the remaining balance of the liability." For each capital lease, an amortization schedule must be completed identifying the rate of interest, the beginning balance, principal payments, interest expense, executory costs, and the ending balance.

Also, SFFAS No. 5 requires that "capital leases entered into during FY 1992 and thereafter are required to be fully funded in the first year of the lease." The value to be funded is reported on the capital lease amortization schedule. Securing funding for capital leases is the responsibility of the NOAA Office of Management and Budget.

OMB Circular A-136, Financial Reporting Requirements, provides guidance on the form and content of the financial statements. Capital leases are reported on the balance sheet. Capital and operating leases are disclosed in a footnote. The various components of that footnote disclosure are listed below:

1. Entity as Lessee
    a. Summary of Assets Under Capital Lease: Enter the gross under capital lease, by major asset category, and the related total accumulated amortization.
    b. Description of Lease Arrangements: Provide information that discloses the agency's funding commitments including, but not limited to, the major asset categories and associated lease terms, including renewal options, escalation clauses, contingent rentals restrictions imposed by lease agreements, and the amortization period.
    c. Future Payments Due: Enter future lease payments, by major asset category, for all noncancellable leases with terms longer than one year. For capital leases, show deductions for imputed interest and executory costs. Separately disclose the portions of the capital lease liability covered by budgetary resources and not covered by budgetary resources (see Appendix B of OMB Circular No. A-11 for additional guidance but be aware of a difference in terminology - the term capital leases as used in this note includes capital leases and lease purchases as the terms are used in OMB Circular No. A-11). According to the OMB Circular No. A-11, capital leases entered into during FY 1992 and thereafter are required to be fully funded in the first year of the lease.
2. Entity as Lessor
    a. Description of Lease Arrangements: Provide the information necessary to disclose the commitment of the entity's assets including but not limited to the major asset category and lease terms
    b. Other Information: Provide other information necessary for understanding leases that is not disclosed in the above categories.
    c. Future Projected Receipts: Enter future lease revenues, by major asset category, for all noncancellable leases with terms longer than one year.

Capital Lease and Operating Lease Spreadsheet Preparation

Capital Lease Spreadsheets for leases meeting the $200,000 and Operating Lease Spreadsheets meeting both the threshold and being non-cancellable, need to be updated each fiscal year for reporting requirements. For operating leases effective January 1, 2006 Spreadsheets must be updated on the anniversary of the lease because that is when the lease amounts are typically adjusted. This will also allow more time for review and help efficiently manage the workload at fiscal year end.

Capital Lease Spreadsheets are updated by the Silver Spring Headquarters office. Updates to the spreadsheets will be based on support submitted in the quarterly data call and checked against the Federal RPM entry.

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Estimated Executory Costs

SFFAS No. 5 states "If the portion of the minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated." The estimate should be based on another lease with similar characteristics such as type of building, quantity of space, amount and type of services provided, location, and rental payments.

The following example illustrates the method to be used to estimate executory costs when the costs are not provided in the lease.

	Original Lease	Similar Lease
Yearly Rent (incl. exec costs)	$240,000.00	$360,000.00
Executory Costs	unknown	$45,000.00
Length of Lease	20 Years	20 Years

Executory Costs on Similar Lease =$45,000/$360,000=12.5%
Executory Costs on Unknown Lease = .125x$240,000=$30,000

Amounts to be reported on Capital Lease Financial Data Sheet

Gross Rent	Exec. Costs	Net Rent
$240,000	$30,000	$210,000

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Real Property Internal Control Policy
Holdovers/Stand Stills/Supplemental Lease Agreements

Leases in Holdover

In some instances after the expiration of the lease, the Federal Government may opt to retain possession of the premises. This may be the result of on-going negotiations with the lessor. During this time, rent must be paid on a month-to-month basis at the rate during the previous lease term. Leases in holdover exceeding $200,000 will be given a defined period for expiration in Federal RPM, and, if no period is determined, the expiration date must be extended to the end of the current fiscal year.

Stand Still Agreements

The Federal Government may be in negotiations with the lessor. In some instances after the expiration of the lease, the Federal Government may opt to retain possession of the premises. As a result, the Government may extend the lease by entering into a "Stand Still" agreement stating new terms and conditions while negotiations with the lessor are in progress. A "Stand Still" agreement is not a supplemental lease agreement (SLA) nor is it an option on the old expired agreement, but a separate agreement that ties the parties over pending completion of negotiations. If the total lease payments for the original/expired lease were $200,000 or more, the lease should be archived by the respective Real Property Regional Office in the fiscal year following the expiration in order to maintain current year activity. If the total rent was less than $200,000, it should be archived by the end of the following quarter in which it expires. The Regional Office will notify the Silver Spring Headquarters office of the action in the quarterly data call. The agreement represented by the "Stand Still" is considered an interim step toward the negotiation of a succeeding lease. The succeeding lease will be retroactively effective to the date the old lease expired. The succeeding lease will be classified as either capital or operating based on specific criteria set forth in FASAB 5: Accounting For Liabilities, Capital Leases, paragraphs 43-46. (Please see the NOAA Real Property Internal Control Policy page 11 to view the criteria necessary for evaluation of the new lease agreement.)

Supplemental Lease Agreements (SLA's)

All Supplemental Lease Agreements must be completed on the Standard SLA form. SLAs represent revisions to the original lease agreement to include: 1) changes to the lease, such as deleting or acquiring additional square footage, 2) operating cost adjustments based on the percentage change in the Consumer Price Index (CPI), 3) payment of a portion of the lessor's Real Estate taxes, if applicable, 4) changes in the lessor's address; and 5) lump sum payments for Tenant Improvements (TI) equal to or exceeding $200,000. When a lease is extended through an SLA beyond the initial base term, Federal RPM will be changed to reflect the effective date of the extension as well as the new expiration date. The preferable way of handling a CPI revision is to use a U.S. Government Lease Rental Adjustment Notice; however this is dependent on the language of the lease.

A fully executed SLA is documentation of agreement to changes in the lease terms, becomes part of the lease, and is filed with the lease. The Federal RPM database manager then enters the changes into Federal RPM, makes a printout of the changes, initials and dates the printout. To ensure accuracy, a Realty Specialist or Contracting Officer then initials the printout and places it in the file. This review must be performed by someone other than the preparer. If the SLA is for a lump sum payment for a TI equal to or exceeding $200,000, must be reviewed by the RPMD Financial Analyst and the Lease Review Board.

If a supplemental lease agreement modifies the quantity of space leased, the lease payment amount (other than operating costs), or the fair market value of the space, the agreement is considered a new lease with an effective date of the SLA. The lease must then be evaluated to determine if it is an operating or capital lease.

Leases with Indefinite Expiration Dates

These leases contain a renewal option that is automatically exercised unless the Government gives a written notification within 90 days. For reporting purposes, these leases are given an expiration year of 9999 in the Federal RPM system to show the current year cost as well as project one fiscal year thereafter. Leases with indefinite expiration dates may be terminated at any time.

Expired leases over the $200,000 threshold should be archived in the fiscal year following the expiration in order to maintain current year activity. If the total rent was less than $200,000, it should be archived by the end of the following quarter in which it expires. The Regional Office will notify the Silver Spring Headquarters office of the expiration of the lease in the quarterly data call.

Leases That Are Terminated Early

If a lease is terminated prior to the final expiration date, the Real Property Regional Chiefs should verify that the lease expiration date in Federal RPM has been changed to reflect the new expiration date. Spreadsheets showing future rent payments must be changed as well so that future lease payments will not be overstated. If the total lease payments for the terminated lease were $200,000 or more, the lease should be archived by the respective Real Property Regional Office in the fiscal year following the termination. If the total lease payments were less than $200,000, it should be archived by the end of the following quarter in which it expires. The Regional Office will notify the Silver Spring Headquarters office of the action in the quarterly data call.

US Department of Commerce
National Oceanic and Atmospheric Administration
Real Property Internal Control Policy
Lease Provision Changes Resulting in New Lease Agreement

New Lease Agreements

According to FASAB 6 and FASB 13: Accounting for Leases, any action that extends a lease agreement beyond the expiration of the existing lease term plus options already set forth in the original signed lease agreement result in a new lease agreement with a new effective date. It is further noted that changes in lease provisions, other than by renewing the lease or extending it's term, that would have resulted in a different classification of the lease had the changed terms been in effect at the inception of the lease also result in a new agreement with a new effective date.

Any change that results in a new lease agreement must be evaluated as either capital or operating based on specific criteria set forth in FASAB 5: Accounting For Liabilities, Capital Leases, paragraphs 43 -46. (Please see the NOAA Real Property Internal Control Policy page 11 to view the criteria necessary for evaluation of the new lease agreement.) ~~If the~~If the total lease payments for the old lease agreement were $200,000 or more, the lease should be archived in the following fiscal year of expiration or changed in order to maintain current year depreciation activity. If the total lease payments were less than $200,000, the old lease agreement should be archived by the end of the following quarter in which it expires or changed in order to maintain current year activity. The Regional Office will notify the Silver Spring Headquarters office of the action in the quarterly data call.

Changes in estimates or changes in circumstances, such as default by the lessee, would not result in a new lease agreement.

US Department of Commerce
National Oceanic and Atmospheric Administration (NOAA)
Real Property Internal Control Policy
Line Office Review/Regional Responsibility

The Silver Spring Headquarters office will request the line offices to perform a 100% inventory review of owned real property to validate the accuracy of Federal RPM. The data contained in the property module will be used for the line office review. This request will be made annually no later than April 1 and will be completed no later than June 15 of each fiscal year. Program Offices (Line and Staff Offices) will have four weeks to review, validate, and or/correct existing owned portfolio assets. The Real Property Management Division will then have four weeks to review and resolve all corrective actions requested by the Program Offices and update Federal RPM. A final report will be completed no later than June 15 of each Fiscal Year. It is the responsibility of the line offices to ensure that these reviews are completed in a timely manner.

The Chief Administrative Officer will determine specific enforcement actions to be taken on a case by case basis. If a Program Office does not respond promptly to the task of completing their annual inventory review in a timely manner, notification prior to the final completion ~~deadline,~~deadline will be sent from NOAA's Director of Real Property Facilities and Logistics to the responsible Program Office CFO informing him/her of the deficiency. If this action does not elicit corrective action, NOAA's Chief Administrative Officer will notify the Line Office Deputy Assistant Administrator. *Additionally, for Fiscal Year 2009 and subsequent years, the Chief Administrative Officer will report to the CFO Council the completion statistics for each Program Office's annual inventory.*

The following review is performed to validate the accuracy of the financial information in Federal RPM, and is a separate validation function from that of the Line Office Review:

- Entries for leases with total rent less than $200,000 or owned assets less than the $200,000 threshold are peer-reviewed at the discretion of the branch chief; and
- Entries at the threshold and above will be reviewed by the respective branch chief.

Files documenting new, owned property, and capitalized improvements will be sent to the Silver Spring Headquarters office for review.

At the end of the fiscal year, the regional real property chiefs will ensure that all pertinent lease information and all owned assets have been entered in Federal RPM for proper financial statement reporting. The Real Property Chief will verify with realty specialists and engineers that real property is in compliance with the timely recording of real property items.

Regional Responsibility

It is the responsibility of the Regional Real Property Divisions to ensure that projects completed by Property Planning and Management Division staff which change the physical status or condition at any one site, are correspondingly changed in Federal RPM.

Disclosures

NOAA's Real Property Office revised the validation process in FY06. The line office validation will continue to be conducted by the end of the second quarter of the fiscal year. The focus of the line office review is that of inventory validation.

A separate review is conducted by regional real property chiefs and financial management staff at the Silver Spring Headquarters office to validate the accuracy of the financial information in Federal RPM. The review process will be based on the premise that properties entered into Federal RPM for FY 2005 and before have been validated by their inclusion in the prior year independent audits. Only the current year's entries and future entries are to be validated. Quarterly, with the quarterly data call, a report of new leases will be sent to the regions for review. The report will be compiled from the listing of leases approved by the Lease Review Board. Entries for dollar amounts under the $200,000 threshold can be peer reviewed at the discretion of the branch chief. Entries at the threshold and above will be reviewed by the respective branch chief. Files documenting new, owned property, and capitalized improvements will be sent to the Silver Spring Headquarters office for review. All records prior to FY06 have been validated by their inclusion in the prior years' audits.

US Department of Commerce
National Oceanic and Atmospheric Administration (NOAA)
Real Property Internal Control Policy
Capital Improvements

This section establishes NOAA policy for determining whether a capital improvement to a building extends its useful life and how improvements to real property are to be depreciated. ***Note: The cost threshold for placing capital or leasehold improvements in Federal RPM is $200,000 or greater. No improvement under this amount should be in Federal RPM unless it is part of a larger project, which in the aggregate, is greater than $200,000.***

Improvement projects usually consist of repair or renovation to one or more of three major building systems: architectural, mechanical, or electrical. These major systems may be further divided into subdivisions as follows:

Architectural
- a) Roofing and roof insulation;
- b) Exterior finishes, doors and windows;
- c) Interior finishes and partitions
- d) Structural repairs and improvements

Mechanical
- a) Plumbing and fire suppression;
- b) Heating, ventilation, fuel storage and controls;
- c) Chillers and cooling towers

Electrical
- a) Service entrance and emergency power;
- b) Distribution panels, uninterruptible power supplies, power conditioners, and alarm systems;
- c) Interior and exterior lighting

Generally, for a project to be considered life extending, it should involve two or more major building systems and include the complete replacement or major renovation of at least three subdivisions. This is the general rule and is not intended to cover every situation. However, it will serve as a guideline for an engineering evaluation as to whether the project should be capitalized. **There may be projects—such as the complete replacement of a single major system—that would be life extending and thus capitalized. Projects of this type will be evaluated using the professional judgment of the engineer designing or overseeing the design of the project.**

Improvements must be supported by file documentation and must include a signed CWIP Determination Letter (See Attachment 5) stating that the improvement was/was not life extending and should/should not be capitalized. The memo must be signed and dated by the engineer or other individual with specific knowledge of the project's cost and scope as outlined above.

Additionally, supporting documentation for the cost and useful life of the improvement must be kept in the property file.

Furthermore, if multiple improvements are made under one alteration contract, there must be documentation in each file to support the portion of the total contract dedicated to each specific capital improvement. Federal RPM must reflect *actual costs*. The costs recorded must be the costs incurred during the year the improvement was constructed/installed.

Accounting for depreciation shall be performed as follows:

a) If an improvement to a building does not extend the useful life of the building, the improvement should be expensed.

b) If an improvement to a building does extend the useful life of the building, the improvement will be separately recorded in Federal RPM. Thus, the original asset will be separately depreciated from the improvement over their prospective remaining useful lives.

Land Improvements

Land is not a depreciable asset because it has an indefinite life. The Federal Government has an immense amount of land that is used for diverse purposes. Land that is acquired or in connection with other general PP&E is defined as general PP&E and must be reported on the balance sheet.

When the Government purchases land, its acquisition costs include any additional costs incurred to place the land in use. Improvements can be made at the time of acquisition or subsequent to acquisition. This includes easements, rights of way, appraisal costs, legal fees, surveying, draining, clearing, grading, tree clearance, filling (without paving or structures), leveling for facilities testing and parking areas, removal of structures or facilities purchased but not used, inspection costs, and landscaping.

Improvements that are included in the construction contracts for buildings or structures will be capitalized with the building or structure.

US Department of Commerce
National Oceanic and Atmospheric Administration (NOAA)
Real Property Internal Control Policy
Capital Improvements to Land

The position paper dated June 18, 1996 written by KPMG was to document our understanding of the proper accounting treatment of costs incurred subsequent to acquisition of real property.

Under the heading Improvements to Land, beginning with the second paragraph, the paper states, "The costs of improvements having a limited economic life such as landscaping, streets, sidewalks, and sewers should be debited to a Land Improvements account and depreciated over their economic lives. Whether these types of costs are incurred at the time of acquisition or subsequent to acquisition of the land, they should be capitalized separately and depreciated over their estimated economic useful life." The third paragraph states, "If the Local Government authority is responsible for the continued upkeep of the improvements, then effectively the improvements have an indefinite economic life to the company and therefore should be added to the cost of the land. This is true regardless of when the improvements are obtained, at the time of acquisition or subsequent to acquisition."

US Department of Commerce
National Oceanic and Atmospheric Administration (NOAA)
Real Property Internal Control Policy
NOAA as Lessor

The Office of Management and Budget (OMB) requires NOAA or BXA to disclose financial information on leases where NOAA or BXA is the lessor. A review should be performed annually on all NOAA and BXA outstanding reimbursable agreements; and all leases involving NOAA's or BXA's assets that have projected receipts should be identified. Moreover, NOAA is required to disclose agreements where income is received beyond compensation for maintenance and operation.

To assist the Silver Spring Headquarters office in gathering data relating to situations such as these, all Regional Real Property Divisions should submit annually to the Director, Real Property Management Division, copies of agreements that include payments of rent beyond reimbursement of utilities and maintenance. Once all information is received, the Silver Spring Headquarters office will prepare a summation for the finance office and forward a copy to the Regional Real Property Division at fiscal year end.

Because the line offices may have entered into agreements that are unknown to the Regional Real Property Divisions, every August the NOAA Finance Office will prepare letters to the Management and Budget Chiefs soliciting copies of these agreements from the line offices. The Finance Office will be responsible for calculations and financial treatment of the Lessor agreement

Acquisition Cost

The acquisition cost of real property is defined as the purchase price paid by the Government when the property is acquired. In the case of land, any additional costs required to place the land in use are included in the acquisition cost. If real property is acquired through donation, devise, judicial process it should be recorded based on the property's Fair Market Value. If it is transferred from another Federal agency, it is recorded at the net book value reflected in the transferor's books.

More specific guidance on recordation of acquisition cost of Real Property acquired through Donation, Devise or Judicial process or acquired by Transfer from another Federal Entity is addressed in those sections within this policy.

US Department of Commerce
National Oceanic and Atmospheric Administration (NOAA)
Real Property Internal Control Policy
Acquired PP&E through Donation, Devise or Judicial Process

The position paper dated June 18, 1996 written by KPMG was to document our understanding of the proper accounting treatment of costs incurred subsequent to acquisition of real property. The first sentence under the heading of Improvements to Land states "The original acquisition cost of the land is the actual amount paid for the land and any additional costs incurred to place the land in use." If the land is acquired through donation, devise, or judicial process excluding forfeiture the land is valued at fair market value.

The position paper references SFFAS NO. 6. Paragraph 30 of SFFAS NO. 6 that states, "The cost of general PP&E acquired through donation, devise, or judicial process excluding forfeiture shall be estimated fair market value at the time acquired by the Government" The position paper also references NAO 203-157 which states under the heading of PURCHASED and LEASED-TO-PURCHASE LAND REPORT, subheading Acquisition Cost, "if donated, acquired by seizure, or foreclosure, insert the fair market value plus any costs incurred to place the land in use."

If a property donor elects to waive an appraisal, the title insurance valuation may be used to determine the fair market value of the donated property. Notification from the donor stating an appraisal has been waived must be kept on file.

US Department of Commerce
National Oceanic and Atmospheric Administration (NOAA)
Real Property Internal Control Policy
Excess Real Property

The Real Property staff is responsible for reporting excess property in accordance with Federal Management Regulations, Chapter 102-75 (Attachment 7) and SFFAS 6, paragraph 39. Requests to demolish any Federally-owned property must follow the procedure for reporting excess property.

For purposes of this policy, excess is defined as no longer providing service in the operations of NOAA. In the event that notification of excess property is received from a line or staff office, the property must begin the excess/disposal process. This is indicated in Federal RPM by entering an estimated Excess Date in the Excessed Property section of the Disposal Dialog Box. Notification from the vacating office stating when the property has/will cease from use must be documented in the file.

When the Reality Specialist identifies property to the Department of Commerce as excess, the Actual Excess Date must be entered in the Excessed Property section of the Disposal Dialog Box. It is the responsibility of the Realty Specialist/Database Manager to remove the property and accumulated depreciation from Federal RPM by entering the Actual Excess Date. A copy of the excess property notification to the Department for screening will be the required documentation for excessing the property. ***Note: The property cannot be removed from the property module until it has been disposed and the disposal documented by the required documentation.*** The property remains the holding agency's responsibility and consequently in the agency's inventory until disposal is completed.

Upon receipt of the required documentation, the Realty Specialist/Database Manager is to remove the property by completing the Property Disposal section of the Disposal Dialog Box. The property can then be archived once the NOAA Silver Spring Headquarters' Office has completed year end closing procedures.

For excess property that must be reported to GSA, Form 118; "Report of Excess Property" is required. The cost information on this form should agree to the supporting real property documentation file as well as the recorded amount in Federal RPM. In addition to the Form 118, required documentation includes the GSA response letter and disposition document (e.g. bill of sale, transfer document). If the property has been demolished, the disposition document should be a memo to the file stating the date of the demolition, cost, and reason for the demolition.

To ensure the accuracy of the data, the Regional Real Property Supervisor must review all excess reports prior to submittal.

Stewardship PP&E

"Form and Content of Agency Financial Statements," OMB 97-01, requirements include reporting of Stewardship PP&E. Federal Mission Assets, Heritage Assets, and Stewardship Land are the three classes of Stewardship PP&E. These assets will be recorded differently from the general PP&E and should be reported separately on the Statement of Net Cost or disclosed in the footnotes. NOAA's Real Property Community is responsible for reporting Heritage and Multi-use Heritage Assets only. The responsible line offices report on Stewardship Land. The Real Property office will only report stewardship PP&E if the property contains a Real Property interest.

Federal RPM does have indicators for identifying heritage, federal mission, and stewardship assets, which must be reported as specified in FASAB Standard #29. The Regional Real Property Office would need to change the FASAB category under the Acquisition module in the Property Record. Per discussions held with NOAA Finance during the Real Property Conference in Seattle, WA on May 18-20, 1999, this information will continue to be collected via data call responses from the NOAA Regional Real Property Offices.

Heritage Assets

Heritage assets are unique and are generally expected to be preserved indefinitely. They are held for their historical, cultural, educational, and architectural style. These assets are reported in units versus cost. Examples of heritage assets include the Lincoln Memorial and the Washington Monument.

Multi-use Heritage Assets

Multi-use Heritage assets serve dual purposes. Not only do they remind society of our heritage; they are also used in daily governmental operations. Examples of multi-use heritage assets include the White House and the US Treasury building.

The cost of acquisition, improvement, reconstruction, or renovation of multi-use heritage assets should be capitalized as general PP&E and depreciated over its estimated useful life. If they are acquired through donation or devise they should be recognized as general PP&E at the assets' fair value at the time received, and the amount should also be recognized as "nonexchange revenues" as defined in SFFAS 7.

Transfers of multi-use heritage assets from one Federal entity to another are transfers of capitalized assets. The receiving entity should recognize a transfer-in as an additional financing source and the transferring entity should recognize a transfer-out. The value recorded should be the transferring entity's book value of the multi-use heritage asset. If the receiving entity is not provided the book value, the multi-use heritage asset should be recorded at its estimated fair value.

Stewardship Land

Stewardship Land is land and land rights owned by the Federal Government but not acquired for or in connection with items of general PP&E. NOAA's Stewardship Marine Sanctuaries and Coral Reef Reserve are stewardship land rights. Because they involve no Real Property elements, they are reported by the line offices directly to the Financial Statements Branch.

Method of Data Collection for Supplementary Financial Statement Reporting

The Regional Real Property Divisions are responsible for reviewing their real property portfolios and reporting these types of assets to the Silver Spring Headquarters office as part each annual fiscal year end data call.   If doubt exists regarding the eligibility of an asset to be considered a heritage or multi-use heritage asset, the prevailing rule of thumb will be to report it. The Silver Spring Headquarters office will review these submissions with NOAA Finance for final determination on whether or not to classify these items as Heritage or Multi-Use Heritage assets. The Regional Real Property Divisions will be notified of exclusions to eliminate the need to submit future updates on the excluded properties.

Recording the Transfer of Real Property from another Federal Entity

Effective June 1, 1998, in the Federal RPM property module, assets acquired by NOAA from other Federal agencies should be recorded at the net book value reflected in the transferor's books. If cost information is not available, the cost of the asset should be recorded based on the property's Fair Market Value at the time of transfer.

The Federal RPM depreciation module will reflect the net book value upon transfer, and NOAA's acquisition date. If the asset equals or exceeds $200,000, depreciation will be taken over the remaining useful life of the asset that was assigned by the transferor. If the asset is less than $200,000, the item will not be capitalized, but must be reflected in the master file.

Upon acquisition of the asset, NOAA has the option to assign a different useful life based on the period it expects to obtain benefit from the asset; however, one must justify this useful life in writing and incorporate it into the Real Property file. One must be mindful that this period must not exceed the standard useful lives prescribed by NOAA.

Accounting Treatment for Prepaid Rent

Prepaid Rent

There are some instances in which cash flow precedes recognition of the related expense. An example is prepaid rent. Prepaid rent is a rent payment that is made in advance of the related expense recognition.

NOAA has prepaid rent for a few operating leases. The Regional Real Property Divisions have an obligation to track prepayments annually and forward the information to the Silver Spring Headquarters office, which will submit the information to the Finance office. Finance will prepare the necessary entries to properly classify this cost.

Disposal of Leases or Assets

If an asset has been entered into or deleted from Federal RPM during the current fiscal year, but the acquisition or disposal actually occurred during a prior year, the asset will be recorded as a prior year adjustment. That is, the amounts should be recorded as adjustments to the previous fiscal year's balances. Likewise, any such future occurrences should be recorded in the prior year's balances, *not* the current years. Any owned properties that have been acquired or disposed of during any given fiscal year must be tracked.

This policy is only applicable to assets equal to or greater than the $200,000 threshold.

US Department of Commerce
National Oceanic and Atmospheric Administration (NOAA)
Real Property Internal Control Policy
CWIP Confirmation

Appendix F in the "Construction Work-in-Progress Policy (CWIP) and Procedures" manual, details the Construction Work-in-Progress Processing Flow and Responsibilities (for Real and Personal Property). Section 10.0 Transferring Assets from CWIP to Property, Plant, and Equipment (PP&E) establishes the procedure for reporting the project to Real Property and its subsequent recording in Federal RPM.

Upon acceptance of the completed item of CWIP, the activity manager must complete the NOAA Form (NF) 37-6, **in the <u>calendar quarter</u> the item of CWIP was accepted,** to transfer from CWIP to the appropriate asset account for depreciation (see Appendix I).

After obtaining the appropriate certifications within the Line/Staff Offices, the CWIP Activity Manager must e-mail a copy of the NF 37-6 (in PDF format) to the Financial Statements Branch CWIP Accountant, located in the Finance Office. **Completed CWIP activities must be reported on the NF 37-6 <u>in the calendar quarter</u> in which they are delivered or placed into service (accepted, occupied, commissioned or operational) to ensure depreciation begins timely and accurate reporting in NOAA's financial statements.**

Upon receiving the NF 37-6, the Finance Office will review the submission for clerical accuracy and project code activation. If insufficient "Uncapitalized Costs" exist on the CBS CWIP Report (CA500D) or there is a balance other than $0, the Finance Office will **not accept or certify** the NF 37-6 and will return to the CWIP Activity Manager for correction. The Finance Office's review does **<u>not</u>** include reviewing the CWIP documentation file or certifying the accuracy of the costs charged to and included in the CWIP activity. This is the **responsibility of and part of the certification by the Real/Personal Property Offices** during their review of the NF 37-6 and CWIP Documentation File prior to entering the CWIP asset into the property systems.

When the project codes and CA500D have been found to be correct, the Finance Office will accept and approve, by signing, the NF 37-6 and notify, via e-mail, the appropriate Real or Personal Property Office and CWIP Activity Manager. Upon receipt of the certified NF 37-6 from the Finance Office, via email, the CWIP Activity Manager should forward the CWIP documentation file to the appropriate property office for use during the review of the NF 37-6 and entry into the property systems.

The supporting CWIP documentation files sent to the property office must contain sufficient evidence and documentation to support all the costs summarized on the NF 37-6. The CWIP documentation file must include the accepted and certified NF 37-6 from Finance Office.

The Real/Personal Property Offices will review the NF 37-6 and related CWIP documentation file for completeness and accuracy, ensuring amounts included in CWIP were accurately included and should not have been expensed. **Incomplete files <u>will be</u> returned**, along with the NF 37-6, to the CWIP Activity Manager for correction. After the Property Office has approved the accuracy and completeness of the NF 37-6 and supporting documentation by annotating the NF 37-6, the property system will be updated and the certified NF 37-6 forwarded to the CWIP Activity Manager and to the Finance Office. The Property Office must record the same value in the property system as that accepted by the Finance Office CWIP accountant.

It is important to note the following supplemental instructions for processing Form 37-6:

- If the Finance certification has not taken place by the Quarter End in which the NF 37-6 was sent to Finance, request email notification of the circumstances surrounding the decision to delay certification. The Regional Real Property Office will then use the email notification for supporting documentation and place a copy in the CWIP file.
- Finance will not post to the General Ledger until the Regional Real Property Office certifies the NF37-6.
- An amended NF 37-6 must be submitted if there are any changes made after submitting the original NF 37-6. The revised NF 37-6 must be prepared and submitted in the same manner as the original and must be clearly marked as a revision.
- The Real Property Office, Silver Spring Headquarters will determine if the change should be entered into Federal RPM retroactively or prospectively. If the change is prospective, the in service date in Federal RPM should be the date of the Activity Manager’s signature on the revised NF 37-6. In either case, the out of service date for the change should be the same as the out of service date for the original project.
- Validate that the useful life of the asset is in compliance with NOAA’s policy.

In addition, the Real Property Office, Silver Spring Headquarters, will send a reminder to the appropriate CWIP Project Manager 30 days prior to the scheduled Beneficial Occupancy Date (BOD). The reminder will reiterate the CWIP Project Manager responsibilities when a project reaches BOD. The reminder will be based on the BOD listed on the CWIP Database report # CWIPDB 104.

The Disposal of Leases or Assets policy implements two procedures to ensure that CWIP projects are recorded in a timely manner. The first is a request to the line offices to perform a 100 percent inventory review of owned real property annually to validate the accuracy of Federal RPM. The second is that the regional real property chiefs will verify policy compliance with the project engineers.

US Department of Commerce
National Oceanic and Atmospheric Administration (NOAA)
Real Property Internal Control Policy
New VENDOR Setup

Although Federal RPM is not currently operable to process vendor payments, NOAA has implemented the following policy to govern the setup, management, and maintenance of vendor profile and ID.

When entering a new lease in the system the user must also provide a Vendor ID. In an effort to maintain continuity between Federal RPM and NOAA CBS accounting system, the Real Property Office has decided to assign the CBS Vendor ID to the lease file in the Federal RPM database. The process for accessing this information in noted below:

1. The user must provide the following data to **Sheryl Thomasson**:
    - Lease # (New and Old – if applicable)
    - Organization and Project Code
    - Frequency and Amount of Payment per Frequency

2. There will be a lag time to access the CBS assigned Vendor ID, until the first payment has been made on the lease by NOAA Finance. During this lag time, the user will indicate the Vendor ID in Federal RPM as "Unassigned" to indicate the Vendor ID is still pending.

3. Sheryl will provide the "Invoice Payment History By Source Reference" report indicating the Vendor ID as assigned in the CBS database.

4. The "Invoice Payment History By Source Reference" report should be added to the lease file as documentation support for the Vendor ID assigned in Federal RPM.

Policy Changes Originating from Finance

Policy changes to the Real Property Financial reporting requirements imposed by offices external to the Real Property Management Division will be accepted only after review and recommendation by the NOAA Financial Reporting Branch. Normally, such changes will be accepted 30 days prior to the end of the quarterly reporting period; with changes made inside the final 30 days of the quarterly reporting period being incorporated during the next quarterly reporting period.