NOAA CWIP Policy - Appendix E
Policy for Reporting Construction Work-In-Progress and Capitalization of OMAO Ship Acquisition and Capital Improvements

Summary

This appendix provides a specific Construction Work-In-Progress (CWIP) policy that applies to the Office of Marine and Aviation Operations (OMAO) ship acquisitions and capital improvements. OMAO purchases, constructs, upgrades, and modifies ships to serve as platforms for scientific data gathering.

This appendix supplements, rather than supersedes, the NOAA CWIP Policy.

This appendix is organized as follows:

1. Acquisitions
2. Capital Improvements
3. Maintenance and Repair vs. Enhancement
4. Integral vs. Non Integral PP&E
5. Cost Matrix

1. **Acquisitions**

NOAA acquires its ships by new construction and transfers from other Federal agencies with customization for NOAA requirements. Ship construction and customization involves a continuum of activities from preconstruction design and requirements to mission ready availability. The process involves multiple sea trials and industrial periods to test and address ship and system functionality, safety, ship standards, crew performance and readiness, execution of NOAA's projects on a trial basis, and contract and warrantee compliance.

a. *Costs*. All costs incurred after the concept development/feasibility stage that are required to bring a ship to the required form and location of its intended use are considered part of the ship's cost. This includes design costs and all other costs stated in the NOAA CWIP Policy. NOAA ships are large, complex structures composed of many pieces of equipment. Ships with a stated scientific mission will include costs incurred to bring the ship to the form of its scientific mission. NOAA ships that do not have a primary scientific mission but have a more generic intended use, such as generic small boats that serve multiple uses, will include costs incurred to bring the ship to the form of its more generic intended use. See cost matrix section below for specific examples of capitalized costs.

b. *Placed in Service (PIS) Date.* The placed in service date is the date when the ship is commissioned.

2. **Capital Improvements**

Ship capital improvements are restorations and recapitalizations/modernizations that meet the CWIP criteria for capital improvements as denoted in the NOAA CWIP Policy. Ship restorations are the repair and replacement work to address deficiencies and damage to existing ships caused by inadequate sustainment, natural disasters, fires, accidents or other incidents. Restoration projects can include upgrades or renovations specifically required to comply with new codes or laws. Major ship projects enhance functionality and/or extend the

life of existing ships and includes renovations, reconstruction, or modernization activities necessary to keep a ship modern and relevant in an environment of changing standards and missions.

a. *Funding*. OMAO typically funds ship capital improvements through PAC funds. However, depending on funding availability, ORF funds can be used. OMAO Marine Operations (MO) Budget should be contacted to determine the appropriate use of the funds.

b. *Placed in Service Date*. The capital improvements to ships should remain in CWIP until they are placed in service/ready for use (form and location of intended use). The capital improvements made during each dry dock or dockside are put to use or ready to be put to use when that ship sails back out to complete its mission work. Therefore, the placed in service date for the OMAO capital improvements to ships is the first day that the ship leaves dry dock or dockside to perform its mission work. There could be multiple PIS dates for each ship. For example, if a ship was pulled into dry dock or dockside each year for a five year progressive maintenance period, then, at a minimum, there would be five different PIS dates – one for each year.

   The annual Fleet Allocation Plan (FAP) provides a schedule of the dry dock periods or dockside repair periods for each ship. The FAP will determine the estimated PIS date for each ship capital improvement as the first day of the first mission scheduled following the dry dock period or dockside repairs. The Ship Daily Activity Tracker (SDAT) will be used to determine the actual PIS date and will serve as support to document the PIS date of the capital improvement.

   Annually, OMAO will provide the Finance Office (FO) with the list of estimated PIS dates for each ship capital improvement within one month of finalization of the FAP. The FO will update the CWIP database to include these estimated PIS dates. Within one week of the PIS date, OMAO will verify the PIS date in the SDAT and provide an updated PIS date to the FO if the date has changed by a month or more.

c. *Useful Life*. Useful life represents the period of time in which the asset/improvement being capitalized will be used. In this case, it is the amount of time that the ship capital improvement will be used. The useful life for a ship capital improvement should be the period of time from the PIS date to the de-commission date found in the most recent NOAA Fleet Plan.

d. *Capitalized Costs*. Costs to be capitalized should be for the capital improvements placed in service at the end of the dry dock period. Parts that are bought during one dry dock period or fiscal year but not installed in that dry dock period should not be capitalized until they are installed or ready for use. Costs to be capitalized should be the costs associated with capital improvements that are usable, ready for use and placed in service. See cost matrix section below for specific examples of capitalized costs.

e. *Expensed Costs*. OMAO funds all operations, personnel, and maintenance for all ships using ORF funds. These costs should be expensed and not included in CWIP or capitalized as part of the ship capital improvement. See cost matrix section below for specific examples of expensed costs.

f. *Sunflower Barcodes*. A financial barcode will be assigned for each PIS date. Different financial barcodes will be assigned for any non-integral assets that will be capitalized separately (general capitalization of personal property should follow DOC/PPMB guidance). If any of the individual components of the capital improvement has already been barcoded, those barcodes will be capitalized along with the financial barcode. The financial barcode and the individual component barcodes will be linked, as children, to the original barcode of the ship (parent).

3. **Maintenance and Repair Vs. Enhancement**

a. *Maintenance and Repair*. If an integral component of the ship is replaced by a component that provides the ship with similar functionality and does not extend the useful life of the ship, the cost associated with that replacement will be treated as a maintenance and repair expense.

b. *Enhancement*. If an integral component of a ship is replaced by an integral component that enhances the functionality of the ship, it is considered a capital improvement (see Capital Improvement section above).

4. **Integral Vs. Non Integral PP&E**

The determination of integral versus non-integral affects the cost of the ship. Please refer to the decision tree diagram in the NOAA CWIP Policy, Section 5.5, to determine if PP&E is integral to a CWIP asset. See Figure 1 at the end of this document for examples of the accounting treatments.

a. *Materiality Relative to Useful Life*. In reference to the second box in the decision tree diagram found in Section 5.5 of the NOAA CWIP Policy, the useful life of PP&E could be considered materially different from the ship if its useful life is **less than** 2/3 of the useful life of the ship. OMAO will consult with the NOAA Finance Office for a final determination of the materiality relative to useful life of the PP&E.

b. *Materiality Relative to Cost*. In reference to the third box in the decision tree diagram found in Section 5.5 of the NOAA CWIP Policy, the cost of PP&E could be considered material if the value of the PP&E is **greater than** 5% of the total CWIP cost of the ship or $1 million, whichever is greater. OMAO will consult with the NOAA Finance Office for a final determination of the materiality relative to cost of the PP&E.

c. *Non-Integral Items*. Equipment and other items that do not support the ship's intended use or are not integral based on the decision tree diagram will be treated according to their own nature. The cost of non-integral property or equipment is not included in the cost of the ship. See the Cost Matrix below for specific examples of non-integral property.

5. **Cost Matrix**
   The following matrix identifies specific ship costs and the applicable accounting treatments (capitalize or expense). CWIP project codes are used to capture the cost of constructed capitalized items; non-CWIP project codes are used for the expensed items.

	Treatment		
		Improvements	
Type of Cost	*New Acquisition of a new ship*	*Enhance functionality and/or extend useful life*	*Maintain current functionality and useful life*
1. Studies that become part of the project	Capitalize as part of ship	Capitalize as part of improvement	Expense
2. Software developed by the project that is integral to the ship	Capitalize as part of ship	Capitalize as part of improvement	Expense
3. Software that is considered "stand alone software"	Expense or capitalize separately from the ship	Expense or capitalize separately from improvement	Expense
4. Electronic systems (e.g., sonars and radars)	Capitalize as part of ship or separately	Capitalize as part of improvement or separately	Expense
5. Small boats, winches and davits	Capitalize as part of ship or separately	Capitalize as part of improvement or separately	Expense
6. VSAT systems and their associated parts	Capitalize as part of ship	Capitalize as part of improvement	Expense
7. Overhauls	Capitalize as part of ship	Capitalize as part of improvement	Expense
8. Hull and all interior and exterior decks and bulkheads	Capitalize as part of ship	Capitalize as part of improvement	Expense
9. Propulsion items such as propellers, engines, gearing and associated components	Capitalize as part of ship	Capitalize as part of improvement	Expense
10. Steering systems such as rudders and associated components	Capitalize as part of ship	Capitalize as part of improvement	Expense
11. Electrical power generations and distribution systems	Capitalize as part of ship	Capitalize as part of improvement	Expense

	Treatment		
		Improvements	
Type of Cost	*New Acquisition of a new ship*	*Enhance functionality and/or extend useful life*	*Maintain current functionality and useful life*
12. HVAC systems	Capitalize as part of ship	Capitalize as part of improvement	Expense
13. Tanks and piping for fuel, sewage, gray water, potable water systems	Capitalize as part of ship	Capitalize as part of improvement	Expense
14. Investments in security measures based on: • security/threat assessments, • environmental compliance, and • safety needs.	Capitalize as part of ship	Capitalize as part of improvement	Expense
15. Fuel, ship operations, personnel costs related to operating the ship, rent, utilities, and phone	Expense	Expense	Expense
16. Minor repairs and maintenance	Expense	Expense	Expense
17. Sustainment costs – required on-going maintenance and repairs, including regularly scheduled maintenance and periodic repairs to life of ship	Expense	Expense	Expense