

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:

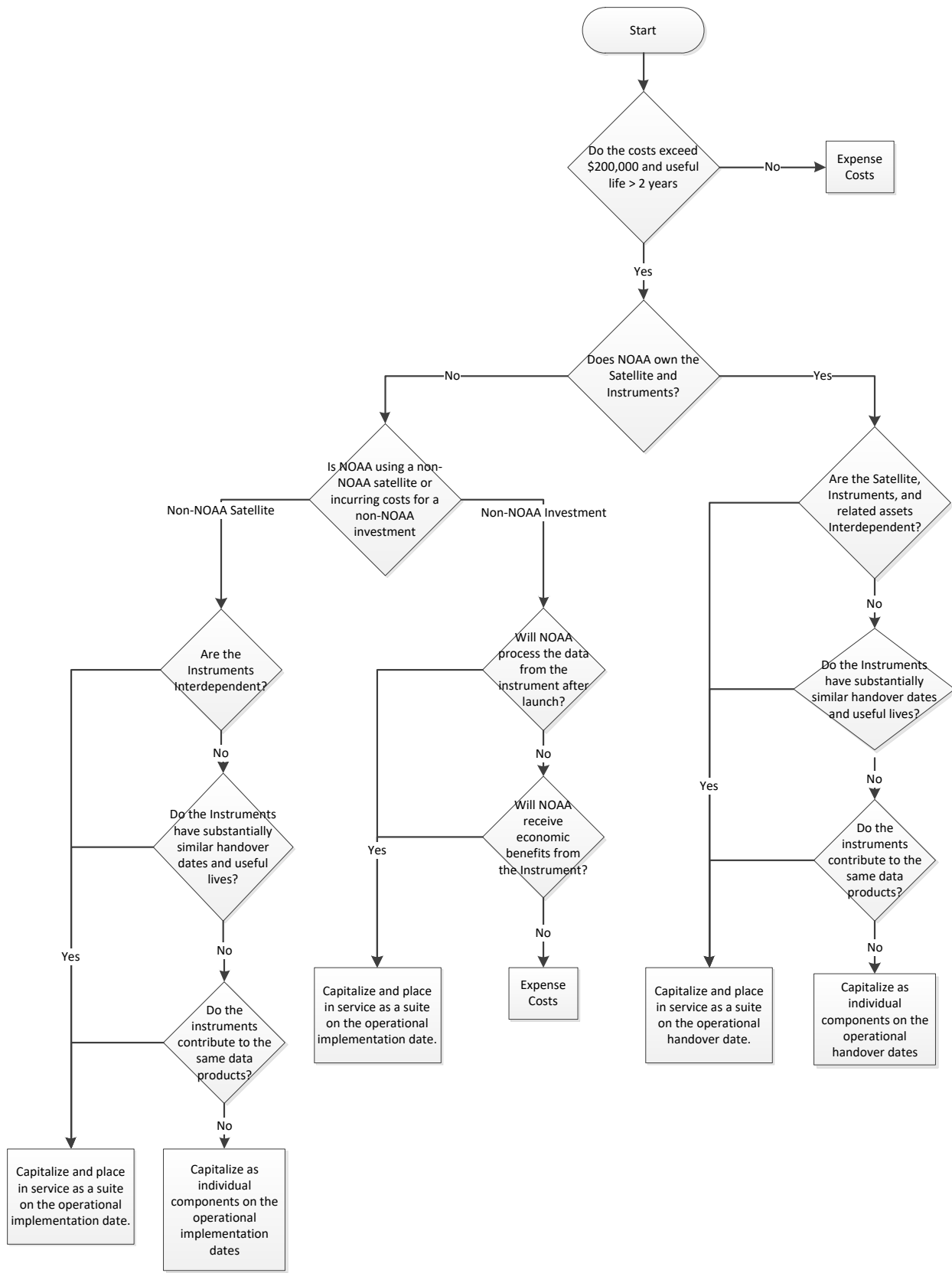
- I. Capitalization Framework
- II. Cost Capitalization versus Expense
- III. Accounting and Capitalization Methodology for Satellite Series
- IV. Useful life
- V. Salvage Value
- VI. Glossary of Terms

I. 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 FMC will capitalize satellites that are developed in a series by the cost incurred for each flight model, working with NESDIS HQ, NOAA Finance, and PPMB to evaluate contractual and supporting documentation.

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.



II. 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.

III. Useful Life

The FMC, in coordination with NESDIS HQ, NOAA Finance, and PPMB, 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

Additionally, when assigning useful life for ground system assets, the useful life should consider known current and future satellites the ground system has been built to operate.

IV. 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, NESDIS has received a waiver from the Department of Commerce (DOC) allowing NESDIS to set the salvage value to zero for a launched satellites, associated instruments, and satellite ground systems. See waiver at the end of this appendix.

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.

V. 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.



UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
NATIONAL ENVIRONMENTAL SATELLITE, DATA,
AND INFORMATION SERVICE

July 21, 2014

MEMORANDUM FOR: Joyce Taylor
NOAA Property Management Officer

FROM: Cherish Johnson *Cherish Johnson*
Chief Financial Officer/Chief Administrative Officer

SUBJECT: Exemption from One Percent Salvage Value for Launched Satellites,
Associated Instruments, and Ground Systems

KPMG issued a draft finding to NESDIS related to the current one percent salvage value for satellites reported in the Sunflower system. The current one percent salvage value shown in Sunflower for Satellites and associated instruments does meet the Department of Commerce's policy. A zero salvage value would be more appropriate to assign since NESDIS satellites and associated instruments will have no resale value once launched. This exemption will be applied to all current and future NESDIS Satellites and associated instrument assets that have been launched as well as all ground systems.

This change will require support from your office to make the appropriate amendments in the Sunflower system. Attached is a Sunflower report depicting all of the assets that are impacted. My staff is available to assist you to ensure a smooth conversion occurs.

If you have any questions, please contact my Financial Accountability Branch Chief, Ms. Denise Doran who can be reached at (301) 713-4728 or via email at denise.r.doran@noaa.gov.

Attachment

Asset listing of items to apply zero percent salvage value