

IMPROVING SYSTEM EFFICIENCY

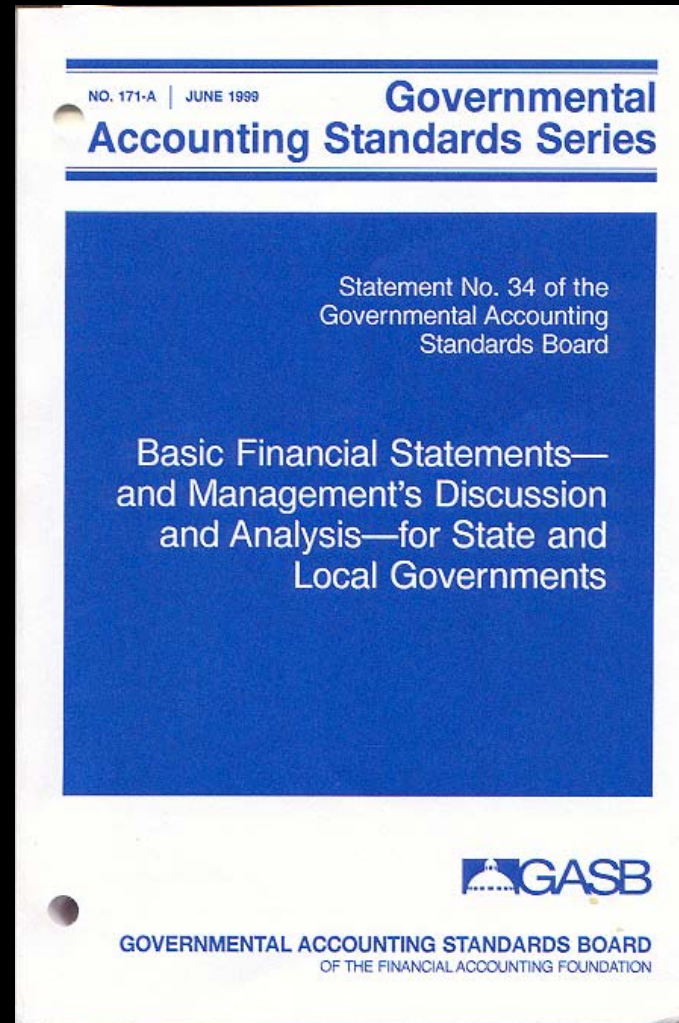
WATER ASSET MANAGEMENT SEMINAR

JULY 28-29, 2002
TAMPA, FLORIDA

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BASIC FINANCIAL STATEMENTS AND MD&A--STATEMENT 34 & 35



WHAT ARE CAPITAL ASSETS?

As used in the Statement, the term *Capital Assets* includes:

- Land
- Easements/ROW's
- Buildings*/Building Improvements
- Vehicles
- Moveable Furnishings and Equipment
- Works of Art and Historical Treasures
- Infrastructure
- Tangible or Intangible Assets

* = Buildings, except those that are an ancillary part of a network of infrastructure assets should not be considered as infrastructure assets.



IN PLANNING FOR IMPLEMENTATION FOR CAPITAL ASSETS, WHERE DO WE START?

- Land
 - Need to be identified
- Easements/ROW's
 - Need to be identified
- Land Improvements
 - Need to be identified
 - Need to be depreciated



IN PLANNING FOR IMPLEMENTATION FOR CAPITAL ASSETS, WHERE DO WE START?

- Buildings/Building Improvements
 - Need to be identified
 - If on use allowance, change to depreciation
 - Need to be depreciated, may also wish to consider building componentization of Research Intensive Buildings



IN PLANNING FOR IMPLEMENTATION FOR CAPITAL ASSETS, WHERE DO WE START?

- Manageable Equipment
 - Records should be current and accurate
 - Any policy changes need to be reported in MD&A
 - If on use allowance, change to depreciation
 - Need to be depreciated
 - Special funds need to be identified

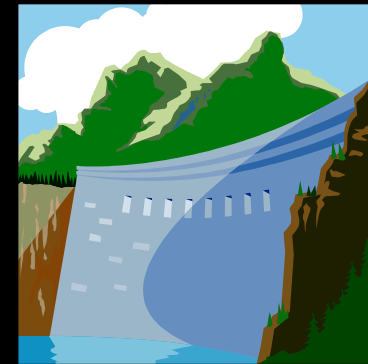
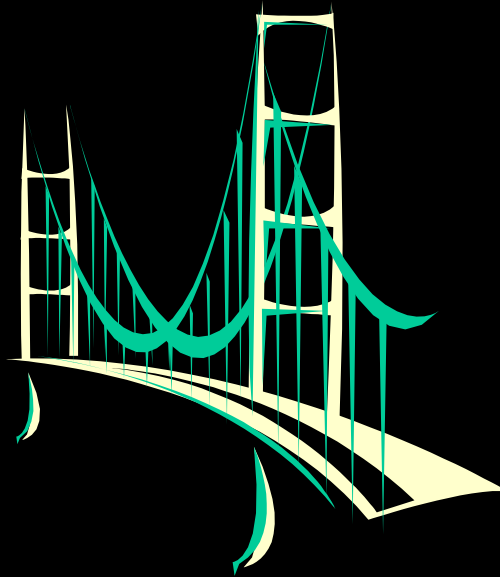
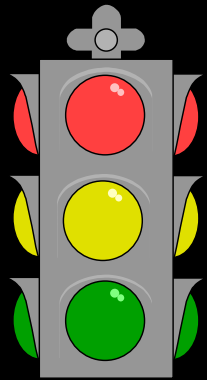


IN PLANNING FOR IMPLEMENTATION FOR CAPITAL ASSETS, WHERE DO WE START?

- Works of Art and Historical Treasures
 - Need to be identified
 - Depending on classification may or may not need to be depreciated
- Infrastructure
 - Please see infrastructure section



A REVIEW OF REPORTING REQUIREMENTS FOR INFRASTRUCTURE ASSETS



WHAT ARE THE EFFECTIVE DATES FOR REPORTING INFRASTRUCTURE ASSETS?

- Phase 1 public entities -with total revenues of = or > \$100 million: Fiscal years beginning after June 15, 2005
- Phase 2 public entities -with total revenues of = or > \$10 million but < \$100 million: Fiscal years beginning after June 15, 2006
- Phase 3 public entities -are encouraged but are not required to report major general infrastructure assets retroactively

With the exception of:



WHAT ARE THE EFFECTIVE DATES FOR REPORTING INFRASTRUCTURE ASSETS?

With the exception of:

- "Public entities that report as special-purpose governments engaged only in business-type activities are required to report infrastructure upon implementation, without regard to the phase-in periods included in this paragraph. The transition period also does not apply to business-type activities for public entities engaged in both governmental and business-type activities."

(Footnote 2 to Paragraph 10, page 4 of Statement 35)



DEFINITION OF INFRASTRUCTURE

- **Infrastructure Assets**, defined as:
 - Long-lived capital assets that are a part of a network of assets that can have service potential for an extended period, and that
 - Are normally stationary



EXAMPLES OF INFRASTRUCTURE AND LAND IMPROVEMENTS

How Can We Distinguish Between the Two?

Infrastructure

- Streets/Roads/
Highways
- Alleys
- Sidewalks
- Curbs
- Culverts
- Traffic Lights/Signals
- Street Signage
- Street Lighting
- Bridges
- Guard Rails

VS

- Trestles
- Sanitary Sewer Collection Piping
- Storm Sewer Collection Piping
- Water Distribution Piping
- Drainage Ditches/Systems
- Irrigation Systems
- Tunnels
- Dams
- Sea Walls/Bulkheads/Piers/
Boardwalks/Docks
- Fire Hydrants
- Gas Distribution Systems
- Electric Distribution System
- Fiber Optic Cabling Systems

Land Improvements

- Parking Lots
- Yard Lighting
- Fencing
- Paths
- Septic Systems
- Fountains
- Fencing and Gates
- Bleachers
- Parking Barriers
- Swimming Pools
- Tennis Courts
- Retaining Walls
- Athletic Fields
- Golf Courses



INFRASTRUCTURE REPORTING

The Choice Is Yours!

- Historical cost/depreciation
- Alternative—Modified approach
 - Demonstrate that assets are being preserved and an asset management system is in place
 - Report all preservation costs as expense
 - Depreciation is not required
 - Require condition information and required versus actual maintenance/preservation



HISTORICAL COST/ DEPRECIATION APPROACH

- Infrastructure assets will be reported in the statement of net assets based on historical cost or estimated historical cost.
- Infrastructure assets will be depreciated over their useful lives unless the modified approach is used.



REPORTING INFRASTRUCTURE ASSETS

- **Transition provisions for infrastructure**
 - 4 year transition period after effective date of statement, if utilizing the Historical Cost/Depreciation Method
 - Estimated historical cost--several methods of calculating
 - Only major Infrastructure Assets acquired or assets that have had significant improvements in fiscal years ending after June 30, 1980.



REPORTING INFRASTRUCTURE ASSETS

- **Transition provisions for infrastructure**
 - If you are reporting as a Business Type Activity (BTA), you will be required to have the following information upon implementation:
 - [Disclosure of your entity's statement of "official" condition at which your infrastructure will be maintaining at, or above if reporting under the alternative method
 - [Have an inventory of all of all of your entity's major infrastructure assets, and their historical cost, from June of 1980 to current (Depreciation/Lives if using the Historical Cost/Depreciation Method
 - [Have a current condition assessment performed, if using the alternative method
 - [Have an asset management system in place if using the alternative method



VALUATION OF INFRASTRUCTURE ASSETS FOR TRANSITION

- Infrastructure assets will be reported in the statement of net assets at historical cost less accumulated depreciation. Historical cost includes estimated historical cost.
- Replacement cost or current cost, which is then deflated back to the acquisition date, is an acceptable method for estimating original cost.



TRANSITION PROVISIONS FOR INFRASTRUCTURE ASSETS

- If infrastructure records are inadequate or if determining actual historical cost is not practical
 - Report only the estimated historical cost for major infrastructure assets and networks of infrastructure asset systems
 - Only major Infrastructure Assets acquired or assets that have had significant improvements in fiscal years ending after June 30, 1980



TO BE CONSIDERED AS A MAJOR
INFRASTRUCTURE ASSET, THE
FOLLOWING CRITERIA SHOULD BE USED:

- Cost estimated cost of the "subsystem" is at least 5% of cost of all general capital assets, or
- Cost estimated cost of a "network" of infrastructure assets is at least 10% of all general capital assets



INFRASTRUCTURE REPORTING

- For reporting of infrastructure assets during the transition period:
 - The entity is required to disclose the method to be used to report infrastructure assets after transition
 - Prospective reporting of infrastructure assets would be required on the statement of net assets
 - Depreciation should be reported on infrastructure assets acquired after the effective date of Statement for assets to be reported using historical cost/depreciation after transition



INFRASTRUCTURE REPORTING

- Transition issues
 - Entities are allowed to report major infrastructure assets or major parts of an infrastructure asset system without reporting all infrastructure assets
 - Entities are required to begin depreciating infrastructure assets when reported if you plan to use the historical cost/depreciation method after transition



“MODIFIED” APPROACH

- **Infrastructure assets do not have to be depreciated if:**
 - The entity uses an asset management system for network of infrastructure assets, and
 - The entity documents that its infrastructure assets are being preserved at condition level established and disclosed by the entity.



WHAT ARE SOME CHARACTERISTICS OF AN ASSET MANAGEMENT SYSTEM?

- An up-to-date inventory of infrastructure assets in the network by location, type, and physical parameters
- Performs replicable condition assessments of the assets managed by the system and summarizes the results for financial reporting
- Calculates estimated expenditures needed in the coming year to preserve the network or subsystem at the condition level established by the entity



DOCUMENTARY EVIDENCE THAT NETWORK IS BEING PRESERVED

- Condition assessments of infrastructure assets are performed in a consistent manner at least every three years
- Results of the past three condition assessments provide reasonable assurance that the network assets are being preserved approximately at (or above) the condition level established by the entity



DISCLOSE AS REQUIRED SUPPLEMENTARY INFORMATION (RSI)

- Condition assessment ent by network or subsystem for last 3 assessment ents
- Condition level that entity states it plans to preserve the assets at
- Estimated versus Actual amounts to maintain and preserve Infrastructure Assets



CAPITAL ASSETS SAMPLE CHECKLIST

- **Land**

- ✓ How, or is, this information currently reported?
- ✓ Do we have descriptive data?
- ✓ Do we have historical cost?
- ✓ Who has and maintains this information at the entity?



CAPITAL ASSETS SAMPLE CHECKLIST

- **Land Improvements**
 - ✓ How, or is, this information currently reported?
 - ✓ Do we have descriptive data?
 - ✓ Do we have a table of lives?
 - ✓ Can we separate land improvements from infrastructure?
 - ✓ Who has and maintains this information at the entity?



CAPITAL ASSETS SAMPLE CHECKLIST

- **Elements/ROW 's**
 - ✓ How, or is, this information currently reported?
 - ✓ Do we have descriptive data?
 - ✓ Do we have historical cost?
 - ✓ Who has and maintains this information at the entity?



CAPITAL ASSETS SAMPLE CHECKLIST

- **Buildings/Building Improvements**
 - ✓ How, or is, this information currently reported?
 - ✓ Do we have descriptive data?
 - ✓ Do we have historical cost?
 - ✓ Should we componentize our research buildings?
 - ✓ How do we report our administrative/academic and support buildings, if we componentize our research buildings?
 - ✓ What type of life information do we have?



CAPITAL ASSETS SAMPLE CHECKLIST

- **Buildings/Building Improvements (cont.)**
 - ✓ Can we separate “maintenance” from an “improvement”?
 - ✓ If we componentize our research buildings, do we have a method to capture “on-going” activity?
 - ✓ Do we have any buildings that are historic?
 - ✓ Who has and maintains this information at the entity?



CAPITAL ASSETS SAMPLE CHECKLIST

- **Movable Equipment**
 - ✓ How, or is, this information currently maintained?
 - ✓ When was our last physical inventory?
 - ✓ Are we “comfortable” with the accuracy of the current inventory?
 - ✓ Do we have historical cost?
 - ✓ Do we have a table of asset lives?



CAPITAL ASSETS

SAMPLE CHECK LIST

- **Movable Equipment (cont.)**
 - ✓ Do we currently tag our assets?
 - ✓ What is our current capitalization policy?
 - ✓ What is our current property management policy?
 - ✓ Do we have proper “perpetuation” procedures in place?
 - ✓ Who has and maintains this information at the entity?



CAPITAL ASSETS SAMPLE CHECKLIST

- **Infrastructure Assets**

- ✓ How, or is, this information currently reported?
- ✓ Are we going with Historical Cost/Depreciation or Maintenance Preservation?
- ✓ Do we have descriptive data?
- ✓ Do we have a table of lives?
- ✓ Can we separate land improvements from infrastructure?
- ✓ Who has and maintains this information at the entity?



CAPITAL ASSETS SAMPLE CHECKLIST

- **Other Tangible or Intangible Assets**
 - ✓ How, or is, this information currently reported?
 - ✓ Do we have descriptive data?
 - ✓ Do we have historical cost?
 - ✓ Who has and maintains this information at the entity?





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QUESTIONS?

