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GASB 34 Infrastructure Rules May Uncover Hidden Assets and Improve Bond Ratings

To be more responsive to the needs of users of governmental financial information, the Government Accounting Standards Board (GASB) issued GASB 34 which affects more than 84,000 government entities including municipal utilities, state and county utilities, and utility districts. The users of governmental financial information are citizens, legislators, regulators and creditors or investors. GASB 34 has had, and will have, enormous implications. It is a very comprehensive document that completely overhauls the accounting and financial reporting of governmental entities. This article discusses how the GASB 34 infrastructure rules promote a review and identification of hidden utility assets and possibly help improve bond ratings.

GASB 34 requires governments to record infrastructure assets, a significant change. In the past many governments have not recorded this information and in many cases, have no idea what was originally spent for infrastructure. Fortunately, GASB 34 allows governments to inventory and estimate the value of those infrastructure assets that are not reflected in the books and financial reports. Infrastructure assets are generally defined as fixed assets that are normally stationary while in use and can be maintained over a significantly greater number of years than most fixed assets. Examples are roads, bridges, tunnels, certain buildings, donated assets, and utility plant.

Utility Assets as Infrastructure

Typically, a government will account for a utility in an enterprise fund or as a business-type activity. Many recent governmental assets in enterprise activities are already capitalized. Further, although utility plant has all the characteristics of infrastructure assets, the government (or their auditors) may not classify them as such due to their enterprise status. However there is nothing in GASB 34 that prohibits the classification (or reclassification) of enterprise activity assets as infrastructure. If the utility assets are classified (or reclassified) as infrastructure, GASB 34 provides government utilities the ability to uncover hidden assets which can improve bond ratings.

Hidden Assets

If utility plant has been recorded and is being depreciated, GASB 34 does not allow for the re-valuation of that plant even if it is classified as infrastructure. Remember, GASB 34 only allows for the valuation of infrastructure plant that has not been recorded. However, a governmental utility may have past expenditures such as replacements, improvements, or major repairs that were not capitalized over the years. Although significant, the reason these assets may not have been capitalized could be due to budgeting, policy, or even political constraints. Provided they meet the infrastructure definition, GASB 34 will allow these hidden assets to be identified and recorded at cost depreciated for their age. As long as the infrastructure is still in use, has value and the cost can be identified, GASB 34 will allow this process to go back as far as necessary. This process should be properly documented for auditor review and verification. A report or study which provides a description of the methodology used during the review, documentation or evidence of the expenditures being capitalized and all supporting calculations should provide your auditors with a high level of comfort. This type of study should be done by someone other than your auditors.

Plant assets that were contributed or donated can be hidden asset candidates as well. This type of plant asset is typically provided by a developer, home builder, customers or grants. If the original cost of this type

The Statistical World of Basketball

One point down, the shot clock is off, a pass is tipped, Havlicek steals the ball, he's headed up the court, now from 22 feet he shoots, HORN, he scores! Game over. Streamers fly! The blimp crashes into a luxury box after bouncing off the Jumbotron...

While you may not recognize the above movements as a series of events, it clearly becomes a string of transactions for a basketball statistician in the quick-paced sports world of NBA and NCAA basketball where constantly moving action with minute details are collectively pegged to millions of dollars in incentive clauses and preserved on highlight reels.

Instant transmission of stats on the Internet or blabbed by a TV announcer is a copyrighted scenario in the NBA today and very similar in the college level game. How is this accumulation of basketball data recorded, capitulated, analyzed, transmitted and preserved? Read on while I divulge this operation that is the same in arenas everywhere as precise rules are configured to maintain consistency and accuracy.

Contrary to popular belief, the members of the stat crew do not just pick one player to track (as in NASCAR or CART racing) or just keep a tally in one stat column throughout the game. Technology has evolved the clock, arithmetic, and courtside distribution, but the physical play still needs to be converted to digital data. Night after night across basketball land, this is now a science where the results are discussed at the water cooler in the morning.

While stats are integrated for players from both teams during a game, the activity borrows from a double entry accounting concept that must be equal in several categories. Rules are written with this in mind. For example, for every steal by one team, there must be a turnover by the other. For every missed shot attempt, a rebound is necessary, even when tipped out of bounds or a free throw is missed from a technical foul (the category "team rebound" is used here to balance things). There can be only one correct interpretation and as a result, a video network instantly displays the player and team tallies around the court to media and PR personnel.

Players will keep track of things themselves, especially if they are not getting much playing time. Blocked shots, assists, and minutes played can be vital ammunition at contract time for monetary incentives or to simply make an NBA roster. Accordingly, a quick review of digitized videotape is possible during the course of a game to clarify a critical stat, but is not a preferred practice. This is because another player, ref, or the rim may block the camera and interferes with the normal taping procedures.

The numbers you hear from the broadcasters, read about in the newspaper box score, see on a player's trading card, or view on NBA.com all come from the same source. The league and Elias Sports Bureau collect the data and issue releases. Personnel-wise, there is one input screen operator, a data input editor, a spotter who recites the action including substitutions and location on the court,

of plant asset is not known or can not be determined by examining internal documents, GASB 34 will allow their estimation or valuation. This can be done by estimating the current replacement cost and trending it back to the first year it was in service or believed to be in service. Sufficient documentation of the estimation process should be maintained for auditor review. These valuations can be provided in a report or study that can be done by engineers or someone with the proper qualifications.

Zero Book Value May Have Hidden Value

Although GASB 34 does not allow the revaluation of infrastructure assets that have already been fully depreciated, if the asset is still providing service it can have value that could be reflected in your financial reports. The current replacement value of these types of assets can be determined and included in the notes of the financial reports. The notes should also explain the assets significance to allow readers to recognize real value even though, in form, there is none. This strategy would apply to those fully depreciated utility assets that have been well maintained over the years due to unrecorded upgrades, replacements and repairs and are expected to provide service well into the future. Again, these valuations should be documented for your auditors and should be provided in a report or study.

Where Do You Start?

Past budgets, detailed minutes, ordinances, resolutions, grant award documents, or agreements, draw downs, etc. are a good place to uncover hidden assets. A source that may help you narrow your focus could be employees, former employees, or current or past elected officials.

The development of an aggressive Capitalization Policy, similar to investor-owned utilities, would assist in the review of past expenditures related to major improvements, repairs, and maintenance. The Capitalization Policy should be used to guide the process when determining what should be capitalized. As we have seen, the new reporting requirements of GASB 34 provide an incentive for governmental utilities to update or amend existing Capitalization Policies to allow for more thorough or robust capitalization. A robust Capitalization Policy can build your asset base and improve your bottom line which may improve bond ratings. The attributes of Capitalization Policies will be addressed in a future issue of **TRANS ACTIONS**.

The very first step may be classifying or reclassifying the utility assets as infrastructure. This should be discussed with your auditors. There are advantages in having utility assets classified as infrastructure; one is addressed in this article. However, another possible advantage is having the option to use the Modified Approach. This approach may offer a valuable alternative to depreciation and will be addressed in a future article.

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and a hand-written backup recorder. This last person also serves as a "third eye" for the official scorer, who uses the traditional scorebook, which is constantly compared with the computer stats and the handwritten backup for a three-way check of accuracy.

Referees also play a role as each time he/she flashes a number of fingers or signals it is recorded. Their identity is also imbedded in the data as to who called the foul, the line violation, etc. The scoreboard requires two operators sitting courtside, along with a 24-second clock operator, and PA announcer. This brings the necessary scorers' table personnel total to 9 during a game. Annual changes in the crew are almost nil, resulting in consistency being preserved from year to year and game to game.

For the casual observer, this may sound very confusing and complicated. But the custom computer program, monitors, and fast printers of today have made the stats process highly improved since the days of the under-handed free throw.

The NCAA process is very similar yet has some rules that differentiate it entirely from the pro game even from a statistical standpoint. Most teams will not have the courtside video network and the computer program is not as sophisticated, but with technological advances becoming more affordable, even Division III schools may advance soon.

In the opening sequence of this article, Havlicek gets credit for the score, but would only be credited with the steal if he was the one who actually tipped the pass. Now, about those blimp pilots...

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Managing Risks: Traffic Signals

A new trend in litigation facing electric utilities are allegations of negligence for outages to traffic signals. Normally, common law requires a driver of a vehicle approaching an intersection with an inoperative traffic signal to treat the intersection as if it were controlled by stop signs.

Most of the suits that alleged negligence on the part of the electric utility are dismissed on summary judgment because the motorist's responsibility to follow traffic laws supercedes the utilities liability to maintain power to the traffic signal. However, there have been a few cases that were successfully litigated against utilities.

In these cases, the utility failed to notify the local government or police jurisdiction that a light was not operating due to a power outage. In one case, the utility scheduled a planned outage for a system repair without notifying the police and in another, a single transformer dedicated to serving only a traffic signal had a failure and no notification was given to the utility or the police for several days.

This type of risk can be mitigated with the newer automated meter reading (AMR) technology. Installing an AMR meter at a traffic signal that notifies the utility of an outage provides a system operator or SCADA operator the information necessary to notify the local police department. On those installations without meters, it is possible to install devices that will call in via a cell-phone modem when power is lost. The key is to provide notification and documentation that the proper law enforcement officials are advised of the problem.

It is suggested that the when a new AMR system is planned on your system, that consideration be given to automating service to traffic signals as a means to manage your risks.

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Knowing and Improving Your "EVaR"

Billions and billions of equity and investment dollars in the form of debt have been lost in the recent energy market moves. Project losses and out-of-money energy contracts have caused owners, investors, and their counterparties to realize significant losses. Liquidity in both the natural gas and power markets seems to be diminishing as well. All these forces are combining to cause a continuation of volatility in the energy marketplace.

To address the more global issue of corporate responsibility and accountability, not only in the energy industry as a result of Enron and others, but also for business in general, increased regulations have occurred in the private sector via the passage of the Sarbanes-Oxley Act. In addition, more and more Boards of Directors are requiring a new role of "Chief Risk Officer" (CRO) to be part of the company's executive management team. The role of this new senior executive is to work with the management team to effectively manage the risks in all parts of the company. This comprehensive approach goes well beyond just managing commodity price risks.

The Rural Utilities Service seems to be sharing similar thoughts regarding overall business risks and the management of such. The RUS in its own words, "has a heightened concern in this area" and is expected to require a comprehensive review of "business risk management" for new funding requests.

As a result, your organization may want to consider a program targeted to reach the risks in all segments of your business, not just energy pricing and supply. **The bottom line being knowing and improving your "Entity's Value at Risk" (EVaR).** This effort can be carried out by starting with a business risk assessment that identifies and measures the risks across the entire business line. The next step would be to develop a business analysis framework directed at the proactive management of each risk. In addition to these actions, all business risk management programs should have a set of risk policies, procedures, and controls.

Proactive management and reduction of all the risks facing your business today and those it will face tomorrow through constant lowering of your business' EVaR will provide long term positive results. These results will show up in an overall lower cost of doing business and a corresponding lower cost of service.

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GDS Associates, Inc.
Engineers and Consultants

Mission Statement:

To help our clients succeed by anticipating and understanding their needs, and by efficiently delivering quality services with confidence and integrity.

GDS Associates, Inc. is a multi-service consulting and engineering firm formed in 1986 and now employs a staff of over 100 in five locations across the U.S. Our broad range of expertise focuses on clients associated with, or affected by, electric, gas, and water utilities. In addition, we offer information technology, market research, and statistical services to a diverse client base. The size and depth of our firm permits us to offer clients multiple sources of assistance, ensuring complete, competent, and timely service. Some of the consulting areas in which **GDS** has specialized skills are:

1. Power Supply Planning Services
2. Financial Analysis and Rate Services
3. Generation Services
4. Regulatory and Restructuring Services
5. Renewable Energy Resources, Distributed Generation, and Combined Heat and Power Services
6. Energy Efficiency and Demand-Side Management Services
7. Electric Planning and Design Services (Hi-Line Engineering, LLC)
8. Environmental Management Services (GreenLine Environmental)
9. Deregulation and Retail Energy Procurement Services
10. Utility Privatization Services
11. Water and Wastewater Utility Consulting Services
12. Natural Gas Consulting Services
13. Statistics and Market Research Services
14. Information Technology Services

GDS consultants are recognized leaders in their respective fields, dedicated to their clients, innovative in their approach to meeting unique challenges, and known for consistently being available when needed. **GDS** strives to develop long-term client relationships. Our goal is to be a wise investment in consulting services for our clients.

Hi-Line Engineering, LLC is a wholly owned subsidiary of **GDS Associates, Inc.** Hi-Line specializes in providing safe, reliable, and efficient planning and design for electric cooperatives, investor owned utilities, municipal electric systems, and the military in all types of terrain and all three NESC loading districts. Hi-Line's areas of expertise include:

1. Overhead Distribution Line Design and Staking
2. Underground Distribution System Design
3. Inspection and Inventory
4. Contract Administration
5. System Planning and Analysis
6. Right-of-Way Vegetation Management
7. GIS/GPS Mapping
8. Training Services
9. Specialized Design Services

Hi-Line uses the latest technology to increase efficiency and accuracy. Our commitment to client satisfaction and diversity of expertise ensures that we provide the highest quality of service.

GreenLine Environmental, a division of **Hi-Line Engineering, LLC**, provides environmental services specially geared to the electric utility industry. GreenLine's staff is composed of registered foresters and ISA certified arborists. Our experience in both power line design and operation complement our expertise in vegetation management on right-of-ways. GreenLine offers the following services to utilities, municipals, developers, industry, and the military:

1. Right-of-Way Vegetation Management
2. GPS and GIS Mapping and Inventory
3. Environmental Assessments
4. Urban Forestry Consulting

Our goal is to use our technology and experience to provide efficient long-term control of trees and brush in harmony with the biological ecosystem.



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