



1407 116th Avenue N.E.
Suite 200
Bellevue, Washington 98004-3819
Telephone 206/453-6300
Fax 206/454-2958

January 8, 1990

Ms. Katherine Tri
Finance Director
City of Newberg
414 East First Street
Newberg, OR 97132

Dear Ms. Tri:

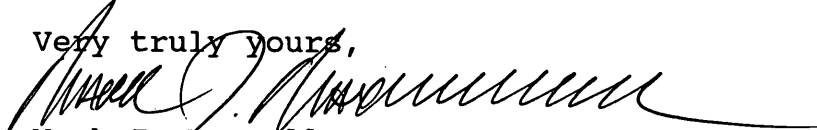
American Appraisal Associates, Inc., is pleased to submit our proposal and recommendations in response to your request for fixed asset inventory services.

For many years American Appraisal has assisted municipalities in providing property inventory and costing services which comply with the requirements of generally accepted accounting principles (GAAP) and governmental accounting, auditing, and financial reporting (GAAFR). By meeting these requirements, your city will overcome a common, final hurdle in obtaining the GFOA Certification of Excellence.

In addition to meeting these external property accounting requirements, our services assure good stewardship and control of public assets; recognize property costs, depreciation, and departmental responsibility; meet insurance needs for placement of coverage and proof of loss; and assist in determining the cost to fund needed capital projects.

American Appraisal sincerely hopes to have the privilege of sharing our vast experience and resources with the City of Newberg. As the leader in fixed asset systems for property control and insurance, we are confident of our ability to deliver the best service available. We appreciate your implied confidence in this request and look forward to working closely with you on this important project.

Very truly yours,


Mark J. Maxwell
District Representative

American Appraisal Associates

**PROPOSAL FOR
THE CITY OF NEWBERG
NEWBERG, OREGON
January 12, 1990**

INTRODUCTION

The City of Newberg requires a comprehensive fixed asset inventory and property control system. This system must provide an accurate inventory of all owned real and personal property and uniform operating procedures to furnish information for effective analysis and control of its general fixed assets account group.

American Appraisal Associates is prepared to provide the City of Newberg with a comprehensive fixed asset inventory and property control system for specified assets. Our proposal is carefully designed to meet specific needs of the City for a property information system.

The complexities of implementing the fixed asset inventory and property control system of the magnitude proposed by American Appraisal Associates necessitates a well-conceived and coordinated plan based on organization, experience, and expertise. Our proposal incorporates this kind of a service plan.

The ability of a firm to provide such a comprehensive and complex service is a direct reflection of the firm's size, capability, reputation in the property systems field, financial responsibility and, most important, its understanding of the City's needs. American Appraisal meets the test of these considerations. Our firm offers 93 years' experience in providing governmental, institutional and industrial clients with counsel on property value and property control.

The fixed asset inventory and property control project is an extremely challenging one. The establishment and implementation of such a complex system demands a high level of specialized experience and knowledge to ensure proper implementation. American Appraisal Associates possesses, in house, the unique combination of capabilities and experience particularly suited to this sophisticated project. We are confident of our ability, not only to provide the high level and quality of services required by the the City of Newberg, but to provide these services economically and expeditiously.

ENGAGEMENT OBJECTIVES

This proposal is based on accomplishing the following objectives:

Development of a Property Record System

The City will be provided with a detailed fixed asset system, offering the following benefits and goals:

Elimination of any audit exception relating to detailed property records.

Proper accountability and stewardship of assets owned.

Compliance with the requirements of Generally Accepted Accounting Principles (GAAP) and Governmental Accounting, Auditing, and Financial Reporting (GAAFR).

Compliance with the Governmental Finance Officer's Association requirements for the Certificate of Excellence in Financial Reporting Programs.

A basis for projecting the cost of future capital replacement.

Improvement in equipment utilization through control and identification of property in service and that which may be available for transfer.

Assurance that the City will not be penalized, via high interest rates, by the bond rating companies for lack of adequate property records.

Insurance Requirements and Administration

This objective requires the development of accurate building and contents descriptions along with the development of replacement costs. This activity will also develop a system for perpetuating the above valuation conclusions and assisting the City in ongoing proof-of-loss services in the event of a required claim against insurance coverages.

SUPPORTABILITY

We recognize the results of our independent investigation and appraisal will be reviewed by your outside auditors. Our efforts will be sufficiently documented to present and defend our inventory and conclusions of value. We will discuss our procedures and methodologies with your auditors. Upon delivery of the report, we will be available to discuss and research any relevant questions.

ASSETS TO BE APPRAISED

The fixed assets to be included in this proposed engagement will consist of:

- Land
- Land Improvements
- Buildings
- Vehicles
- Machinery
- Equipment
- Supplies (not consumable supplies)

Certain groups of assets--vehicles, library books, leased equipment and items assigned to and in possession of a specific person--will be included based upon information provided by your staff. Our Project Manager will provide the necessary reporting forms and explanations to assist your staff in compiling these inventories which will be incorporated into the appraisal record by our staff.

Access to architectural drawings, purchasing data, and other records is required--preferably in the work area which will accommodate two or three appraisers.

Buildings will be included in the report, showing the original cost or estimated cost and cost of reproduction new. Fixed equipment or "built-ins" will be included as part of the building.

Improvements other than buildings and minor structures will be included in the report by location. They will be generally described and valued in aggregate by category of improvements.

Machinery and equipment, furniture, and office equipment will be reported as an individually controlled unit if the current unit cost of reproduction new is \$300 or greater and the item has an expected useful life greater than one year,

and it is typically identified by a manufacturer's name, model number and serial number.

We will make no investigation of, nor assume any responsibility for, the existence or impact of any hazardous substance, which may or may not be present on the property, in the development of our appraisal conclusion.

**FIELD PROCEDURES AND SPECIFIC DATA
ELEMENTS TO BE COLLECTED**

The field investigation will be conducted by staff appraisers who are permanently employed by American Appraisal Associates, Inc. - Public Sector Division. We will be prepared to meet with the City Finance Manager and staff to coordinate parameters to be followed during the engagement. This initial meeting will include topics such as:

The current policies of the City regarding capitalization, accounting, depreciation, asset management, economic life, and departmental cost centers.

Finalizing the proposed schedule of our work, and arrangements whereby department heads can extend full cooperation to our appraisal staff.

Selecting as liaison an individual employed by the City who is aware of the appraisal objectives and with whom we will interface on a daily basis.

Review our intended report formats for the final output of the engagement.

This detailed inventory and appraisal service will include a physical inspection and inventory of property previously identified as being included in this engagement. The specific data elements to be captured are:

- a. Asset Number
- b. Category
- c. Description
- d. Make/Model
- e. Serial Number
- f. Quantity
- g. Date Acquired
- h. PO Number
- i. Vendor Source

- j. Cost
- k. Replacement Cost
- l. Estimated Life/Replacement Year
- m. Location
- n. Disposition Date
- o. Account Code

Where known, we will use the actual original cost and acquisition date for the property inventoried. We understand all invoices or accurate records may not be readily available, and will utilize standard costing or normal costing, both of which are defined below. In our position as a third-party, professional appraisal firm with unparalleled experience in property accounting, these estimates are both accurate and well-regarded by those who may scrutinize our reports.

Direct Costing - Inventoried units/groups will match a historical cost record and will be recorded at that amount.

Standard Costing - Inventoried property units/groups not reconciled to a historical record receive an estimated cost, where possible, based on a Standard Cost; a known average installed cost for a like unit at the estimated acquisition date. The unit's age is estimated based on observed condition, manufacturer's name, model, serial number, age of the facility, etc. Standard Costs for many equipment items are available from our own files and records.

Normal Costing - Where neither of the above techniques can be employed to apply historical cost, cost is estimated based on a present Cost of Reproduction New indexed by a reciprocal factor of the price increase from the estimated date acquired to the appraisal date.

INSURANCE SERVICES INVENTORY AND VALUATION

Based upon an analysis, pricing, and processing of these records, we will furnish our opinion of the following for all City buildings and contents:

Cost of Reproduction New is the amount required to reproduce the entire property at one time in like kind and materials in accordance with current market prices for materials, labor and manufactured equipment, contractor's overhead and profit, and fees, but without provision for

overtime, bonuses for labor, and premiums for material or equipment.

Cost of Reproduction New is synonymous with the insurance industry term "Replacement Cost".

Cost of Reproduction New Less Depreciation, for insurance coverage, is based upon the cost of reproduction new, as defined, less an allowance for accrued depreciation as evidenced by observed condition in comparison with new units of like kind with consideration of physical deterioration and functional and economic factors deemed relevant for insurance purposes.

Cost of Reproduction New Less Depreciation is synonymous with the insurance industry term "Actual Cash Value".

The appraisal will not take into consideration the replacement of the property to conform with building codes, ordinances, and other legal restrictions; the cost of demolition in connection with reconstruction; or the removal of destroyed property.

TIMING AND REPORTS

We will begin this engagement approximately two weeks after authorization, and will have the entire project, including final reports, delivered to the City Finance Manager approximately ten weeks after the engagement start date. This time horizon should more than meet the June 30, 1990, report delivery date requirement proposed by the City if authorization is given expeditiously.

Initial concentration shall be focused on the inspection, listing, and pricing of the water utility and waste water systems. This information will be provided to the City in draft form prior to completion of the final report.

The City will receive a full complement of reports detailing the results of our investigation, to include, but not necessarily limited to:

1. Certificate of Values
2. Glossary of Accounts and Descriptive Abbreviations and Definitions.
3. EDP Generated Reports

Property Accounting Summary

Property Accounting Ledger Reports - A separate ledger report will be provided sorted by location, asset number, category, and account code.

Insurance Master Summary

Insurance Summary

A Master File Magnetic Tape or Floppy Disk to be furnished for operation on the City's computer system that will provide an accurate, documented and supportable basis for continued fixed asset accounting by the City.

All reports are laser printed on 8.5" x 11" loose-leaf bound paper for ease of duplication and distribution.

PROPERTY RECORDS SYSTEM UPDATES

We recommend that the basic appraisal be kept up to date on an annual basis through the utilization of our continuous service program. This service will allow us to take into consideration any physical changes affecting the properties and to provide you annually with revised insurable value summaries and a detailed property control report which reflects variations in the general price levels, the continued operation of depreciation for insurance and accounting purposes, and any other factors deemed relevant.

To maintain the currency and accuracy of your appraisal, it must be adjusted to reflect ongoing economic and property changes.

Our experience has shown that appraisals have effective useful life of up to ten years depending upon such factors as:

- Quality of reported changes

- Level of asset activity (additions, retirements, transfers)

- Inflationary level of economy

- Continuity of the reporting officials

- Periodic authorization of additional on-site time where warranted for such things as new construction and major remodeling.

The appraisal renewal and loss service provides the following benefits:

- A detailed program to establish an ongoing system for recording and reporting of changes in the property.

- The verification and amplification of reported property changes by our appraisal representatives.

- An annual revised Insurance Summary Report providing current values of the property under service.

- This update of values will reflect the following factors:

 - Changes in property as reported to us by the City.

Selective repricing and adjustment of the appraisal base through use of customized adjustment factors tailored to your building and equipment mix to reflect current material and labor prices in the greater Newberg, Washington area.

Changes in estimated depreciation for insurance purposes.

If the appraised property is damaged or destroyed, we will update values and work with you to provide consultation as needed.

FEE STRUCTURE

Our fee for this engagement is based on our estimate of the professional services to be furnished according to our understanding of your requirements and in no way is contingent upon the outcome of our conclusions. Fees include all professional charges, living and travel expenses, and computer charges as required. Fees are payable by the City on a progress basis, for actual work performed, not to exceed 40% of the contract amount, at the time all field work is complete. The balance of the payment shall be made within twenty days of satisfactory completion of the contract. This fee will remain valid for a period of not less than ninety days from the date of proposal.

Standard Appraisal Service	\$3,500
Annual Appraisal Update	\$ 500 per year

GENERAL SERVICE CONDITIONS

The services provided by American Appraisal Associates, Inc., will be performed in accordance with professional appraisal standards. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, workpapers or documents developed during the course of the engagement will be our property. We will retain these data for at least five years.

Our report is to be used only for the purpose for which it is stated herein; any use or reliance for any other purpose,

by you or third parties, is invalid. You may show our report in its entirety to those third parties who need to review the information contained therein. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our prior written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of American Appraisal Associates, Inc., including any director, officer, employee, subcontractor, affiliate, or agent.

We reserve the right to include your company/firm name in our client listing, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

SUMMARY

We believe we have presented a detailed proposal in accordance with your specific requirements.

Due to the diverse types of assets present, this appraisal requires skilled and experienced professionals in the fields of engineering, architecture, and computer science, all working together in a coordinated fashion under a common, overall project plan. We have the essential combination of a full-time, permanent staff, skilled in all these disciplines serving as members of our Public Sector group.

American Appraisal Associates, Inc., continues to be the world leader in providing fixed asset appraisal services to the public sector. This qualification ensures that a full complement of staff will be available at any time in the future to support the values concluded during audit or at the time of a fire loss. As new fixed asset technology evolves, American Appraisal will be among the first to bring the services to its clients.

We sincerely appreciate this opportunity to submit our proposal and your confidence in American Appraisal Associates, Inc., as implied by your request for this proposal.

Authorization

This letter is written in triplicate, and if it correctly reflects your understanding of our agreement, please confirm such by signing and returning one copy. Please note, we will be unable to deliver any conclusions, verbal or written, until we are in receipt of this acknowledgement. To avoid any delays in delivery, you may wish to first telecopy the signed acknowledgement to 206-454-2958. Thereafter, please forward the original to us in the enclosed self-addressed, stamped envelope.

Client of Record: City of Newberg

✓ Appraisal Services

✓ Annual Appraisal Update

BY *Deane R. Cole*

TITLE *City Manager*

DATE *March 20, 1990*

REPRESENTATIVE LIST OF CLIENTS SERVED

City of Bellevue
Bellevue, Washington

City of Boise
Boise, Idaho

City of Corvallis
Corvallis, Oregon

City of Grangeville
Grangeville, Idaho

City of Klamath Falls
Klamath Falls, Oregon

City of Longview
Longview, Washington

City of Spokane
Spokane, Washington

City of Toppenish
Toppenish, Washington

Cowlitz County PUD
Cowlitz County, Washington

Kitsap County Auditor
Kitsap County, Washington

Municipality of Metropolitan Seattle
Seattle, Washington

City of Blaine
Blaine, Washington