Comptroller's Directive No. 1-15
Attachment 14A
Impairment of Capital Assets

Purpose

- The purpose of **GASBS No. 42**, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, is to provide reporting guidance for the impairment of capital assets and all insurance recoveries (not just recoveries for impaired capital assets), excluding pollution remediation recoveries. **GASBS No. 42** states that an impairment exists when the decline in service utility is significant and unexpected.
- **GASBS No. 42** applies to intangible assets that are reported as a capital asset per **GASBS No. 51**. Refer to the **GASBS No. 51** Section of the **Authoritative Literature/Guidance for Preparation of GAAP Basis Fund Financial Statement Templates**, **GASBS No. 51 Frequently Asked Questions**, and CAPP Topic No. 30325, *Software and Other Intangible Assets*, on DOA's website at **www.doa.virginia.gov**.
- For Governmental-type activities, "significant" is defined as at least $1,000,000 per occurrence for all capital asset impairments. This amount applies to the impairment only and not the carrying value of the asset.
- Any agencies that may have a capital asset impairment should obtain and review **GASBS No. 42** for guidance.

Applicable agencies

Agencies that account for capital assets in **Fund 1500** on FAACS and CARS.

Exemptions: The following agencies provide financial statement template(s) or supplemental information and do not need to submit this attachment.

- Department of Environmental Quality
- Department of Game and Inland Fisheries
- Department of Medical Assistance Services
- Department of Mines, Minerals and Energy
- Department of Rail and Public Transportation
- Department of Transportation
- Virginia Correctional Enterprises
- Virginia Employment Commission
- Virginia Information Technologies Agency
- Woodrow Wilson Rehabilitation Center

Questions

For questions or to request detailed training from an analyst, please contact: **FAACS@doa.virginia.gov**.

Please reference the attachment number in the subject line of the e-mail.

Due date

August 6, 2015

Data entry

Only cells highlighted in yellow allow for data entry. Error messages in cells are intended to alert preparers that established parameters are not being followed. **Failure to correct Errors or provide answers to all required questions prior to submission will prohibit acceptance of the attachment. Selected cells requiring a response will be populated with an "Answer Required" message until a response is entered.**

Certification

The **Certification** tab requires all preparers and reviewers to type their name on this form. Please note that there should be a segregation of duties; therefore, the preparer and the reviewer should not be the same individual for any tab. **By typing a name, the preparer is certifying that all of the questions have been completed and are accurate; the reviewer is certifying that the attachment has been reviewed and is complete and accurate; the preparer and reviewer were not the same individual for any tab; and the preparer and reviewer have read and understood the instructions for the attachment. If agency staffing does not allow for a different preparer and reviewer, please contact DOA.**

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Submission requirements

Contact DOA if the agency has any problems with the files.

After downloading the files, rename the spreadsheet file using the agency number followed by Att14A. For example, agency 151 should rename its Attachment 14A.xlsx file as 151Att14A.xlsx.*

Submit the Excel spreadsheet electronically to finrept-agyatt@doa.virginia.gov.

Please include **Agency Number** and **Attachment Number** in the **subject line** of the submission e-mail.

Copy APA via e-mail to APAFinRept@apa.virginia.gov.

Do not submit paper copies of the Excel attachment.

For your convenience, the contact information in all but the first tab in each attachment/template has been unlocked and shaded yellow. The contact information continues to be auto filled with the information from the first tab but the cells remain unlocked to allow for more than one preparer to complete the attachment.

***Note: The attachment is in the Excel 2007 version (.xlsx). If the agency has an earlier version of Excel, the file can be saved in the earlier version (.xls). If the agency has an earlier version of Excel and has problems opening the file, DOA can provide the attachment saved in an earlier version of Excel (.xls).**

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Attachment revisions

If attachment revisions are made subsequent to DOA acknowledgement of receipt and acceptance of the original attachment submission, **resubmit the revised attachment AND complete the Revision Control Log tab in the attachment Excel file.**

Enter the revision date, applicable Excel file tab name, row number and column letter revised, and the previous and revised information. Document text changes and numerical changes. Only enter changes for amounts actually keyed. For example, if a non-keyed, calculated total changes as a result of the revision, this does not need to be documented on the Revision Control Log.

If the attachment is revised more than once, do not delete control log revision information from the previous revision. Enter the new revision date and the additional revisions in the rows following the initial revision rows. This log should document all revisions from the initial attachment submission.

Include "**REVISED – date**" in the **subject line** of the submission e-mail as well as in the **file name**. Resubmit the revised attachment; and ensure that the **Revision Control Log** tab has been completed.

Each time a revision is submitted the Certification tab should be updated with new signatures and dates.

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Overview of requirements

GASBS No. 42 requires that agencies:

- **Recognize Impairment Loss: Capital assets permanently impaired during fiscal year 2015**: The capital asset must be written down by the impairment loss amount. Any insurance recoveries recognized during the year of impairment for the capital asset must be netted with the impairment loss. These losses should be reported as program expense-loss on sale/disposal/impairment of capital assets, special item, or as an extraordinary item on the government-wide statements.

  See guidance in the most current Comprehensive Implementation Guide issued by GASB in 2013, questions 7.43.1 through 7.43.4, 7.67.1, and 7.67.2. Examples: Z.42.1 through Z.42.10, Z.42.12, Z.42.13, and Z.51.26 through Z.51.28. Also paragraphs 41 through 46, 55, 56, 101, and 102 of **GASBS No. 34 and** paragraphs 19 through 24 of Accounting Principles Board Opinion No 30, *Reporting the Results of Operations — Reporting the Effects of Disposal on a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. Additional information is also available in **GASBS No. 62**, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

  The Comprehensive Implementation Guide as of June 30, 2013, is available on GASB's website at **http://www.gasb.org**.

- **Insurance Recoveries:** For any insurance recoveries (excluding pollution remediation) that are for prior year capital asset impairments and/or all other reasons (i.e. theft, embezzlement of cash, etc.), report these recoveries as program revenue-operating grants & contributions, program revenue-capital grants & contributions, or as an extraordinary item on the government-wide statements. **Please see Attachment 18 for proper disclosure of insurance recoveries.**

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Additional guidance

For additional guidance, refer to the **GASBS No. 42 Overview** section of **Authoritative Literature/Guidance for Preparation of GAAP Basis Fund Financial Statement Templates**, which can be found on DOA's website at **www.doa.virginia.gov**. Click on the "Financial Statement Directives" link.

Footnote Disclosures:

- **Impairment Losses**: The footnotes must include a general description, the amount and the financial statement line item.

Idle Capital Assets – Temporarily or Permanently Impaired: Any permanently and/or temporarily impaired capital assets that are idle as of year-end must be disclosed. Provide the carrying amount of any permanently and/or temporarily impaired capital assets as of year-end.

- **All Insurance Recoveries**: Please see **Attachment 18** for proper disclosure.

Other Considerations:

- For any capital assets that do not meet the impairment test, the remaining useful life and salvage value may need to be reevaluated and changed on a prospective basis.

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Comptroller's Directive No. 1-15
Attachment 14A
Impairment of Capital Assets

Instructions: Tab 1-Survey

Part 1 identifies potential capital asset impairments as follows:

A) **Possible Impairment of Capital Assets**: As of June 30, 2015, did the agency have an event* or change in circumstances* that may indicate an impairment of a capital asset as described in **GASBS No. 42**? If **yes**, provide a description, month/year it took place, the possible impaired capital assets, and then go to B. If **no**, go to **Part 3**.

***Note:** This must be a prominent event or circumstance that is conspicuous or known to the agency. It is expected to have been discussed by management or the media. Common indicators of impairment include the following:

- Physical damage (i.e., fire, flood)
- Enactment or approval of laws/regulations or other changes in environmental factors
- Technological development or evidence of obsolescence
- Change in the manner or expected duration of a capital asset
- Construction stoppages (i.e. lack of funding)

B) **Impairment Test**: If **yes** to A, is the decline in service utility of the capital asset significant **and** unexpected? For Governmental-type activities, "significant" is defined as at least $1,000,000 per occurrence for all capital asset impairments. This amount applies to the impairment only and not the carrying value of the asset. If **yes**, go to C. If **no**, go to **Part 3**.

Note: If this test indicates an impairment has not occurred, the estimated useful life and salvage value may need to be reevaluated and changed. This should be accounted for on a prospective basis.

C) **Permanent Impairment**: If **yes** to A and B, is the impairment considered permanent? If **yes**, complete **Tab 2-Permanently Impaired**. If **no**, go to **Part 2**.

Note: Generally, an impairment should be considered permanent; however, in some cases it may be considered temporary. If it is considered temporary, the capital asset should not be written down. See **GASBS No. 42** for guidance.

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Instructions: Tab 1-Survey (Continued)

Part 2, Idle Capital Assets – Temporarily Impaired identifies capital assets that are temporarily impaired as follows:

Any permanently and/or temporarily impaired capital assets that are idle as of year-end must be disclosed. Does the agency have any temporarily impaired capital assets that are idle at year-end? If **yes**, complete **Tab 3-Temporarily Impaired**. Provide the carrying amount of any temporarily impaired capital assets that are idle as of year-end. If **no**, go to **Part 3**.

Instructions: Tab 2-Permanently Impaired

Column **6c** - **GASBS No. 42** provides three methods to determine the amount of impairment loss to be recognized for a capital asset that will continue to be used as follows:

- **Restoration Cost Approach** – Generally used to measure impairment losses from physical damage such as from fire, wind, and the like
- **Service Units Approach** – Generally used to measure impairment losses from environmental factors, technological changes, obsolescence, or the change in the manner or duration of use
- **Deflated Depreciated Replacement Cost Approach**, which can also be used to measure impairment losses resulting from a change in the manner or duration of use

Ultimately, the specific method to be used should be the one that best reflects the service utility decline. The method used to measure impairment losses should be applied consistently to impairments with similar characteristics.

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Specific Instructions: Tab 2-Permanently Impaired (Continued)

Restoration Cost Approach
Under this approach, the write-down is based on the cost to restore the utility of the capital asset. The current restoration cost is then converted to a historical cost basis using an appropriate cost index or by applying a ratio of estimated restoration cost over estimated replacement cost to the carrying value of the capital asset. To determine the ratio of estimated restoration cost over estimated replacement cost follow these steps:

Step	Action
1	Determine the restoration cost in current dollars. This amount should be based on the amount of the impairment caused by the change or event and should exclude costs related to demolition, cleanup, additions, and improvements.
2	Determine the replacement cost in current dollars for the capital asset.
3	Determine the carrying value of the impaired capital asset before adjustment (historical cost less accumulated depreciation).
4	Determine the relationship between the restoration cost in current dollars and the replacement cost in current dollars for the capital asset. This should be expressed as a percentage (restoration cost/replacement cost).
5	Determine the impairment loss by multiplying the carrying value of the asset by the restoration cost ratio computed in step 4.

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Specific Instructions: Tab 2-Permanently Impaired (Continued)

Example of the Restoration Cost Approach
Assume that a building has a historical cost of $1,000,000, with an estimated useful life of 25 years, and was 60% depreciated when it was discovered that walls were structurally deficient due to an earthquake. The estimated cost to restore the walls is $200,000. The estimated current cost to replace the building is $1,500,000. The building is still going to be used. The computation of the write-down is as follows:

Component of Restoration Cost Approach	Amount
Historical cost of building	$1,000,000
Less accumulated depreciation of the asset	$(600,000)
Carrying value of impaired asset	$400,000
Restoration cost ($200,000) / replacement cost ($1,500,000)	13.33%
Impairment loss = carrying value ($400,000) multiplied by restoration cost ratio (13.33%)	$53,320

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Specific Instructions: Tab 2-Permanently Impaired (Continued)

Service Units Approach
The write-down under the service units approach is based on the proportion of the capital asset, as expressed in service units that has been lost due to an event or change that created an impairment. The total service units can be based on either the maximum estimated service units or total estimated service units throughout the life of the capital asset. Service units can be measured in years of service, number of units produced, number of citizens benefited, etc.

Example of Service Units Approach
Assume that equipment has a historical cost of $500,000, and originally had an estimated useful life of 30 years. After 3 years of use, new regulations are enacted that will make the equipment obsolete in 3 more years. The amount of service units lost, expressed in years, is 24. The amount of the impairment loss is $400,000 ($500,000 x (24/30)).

Deflated Depreciated Replacement Cost Approach
This approach is based on determining the current cost of an asset needed for the current level of service. Based on the assumed carrying value of the theoretical asset, that carrying value is deflated to the historical cost basis for when the original asset was acquired.

Example of Deflated Depreciated Replacement Cost Approach
Assume a building has an original cost of $4,000,000 and was 40% depreciated. The building was to be used originally as an airplane hangar, but management has decided that it will now be used as a storage facility. The cost of a comparable storage facility is $500,000 and the replacement cost of the airplane hangar is $5,000,000.

Component of Deflated Depreciated Replacement Cost Approach	Amount
Deflator (Original Cost/Replacement) ($4,000,000/$5,000,000)	80%
Assumed carrying amount of a new storage facility ($500,000 x 60%)	$300,000
Carrying amount of old building ($4,000,000 x 60%)	$2,400,000
Deflated assumed carrying amount of a new warehouse ($300,000 x 80%)	$240,000
Impairment loss ($2,400,000 - $240,000)	$2,160,000

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