

Attachment HE-10 – TAB 3 Part 3: GASBS No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

Purpose

The purpose of GASBS No. 42 is to provide reporting guidance for the following: impairment of capital assets (including intangible assets reported as capital assets in accordance with GASBS No. 51) and most insurance recoveries* (not just recoveries for impaired capital assets). (Note*: GASBS No. 42 was issued prior to GASBS No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. Insurance recoveries for pollution remediation outlays must be reported in accordance with GASBS No. 49.)

Overview of requirements

Financial Statement Template Reporting:

- **Recognize Impairment Loss: Capital assets permanently impaired during fiscal year 2017:** The capital asset must be written down by the impairment loss amount. Any insurance recoveries recognized during the year for the impaired 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 extraordinary item.
- **Insurance Recoveries:** For any insurance recoveries that are for prior year capital asset impairments and/or all other reasons except for pollution remediation activities (e.g., theft, embezzlement of cash, etc.), report these recoveries as program revenue-operating grants & contributions, program revenue – capital grants & contributions, or an extraordinary item.

Footnote Disclosures:

- **Impairment Losses:** The footnotes must include a general description, the amount and the financial statement template line item.
- **Idle Permanently and/or Temporarily Impaired Capital Assets:** The carrying amount of temporarily and/or permanently impaired capital assets that are idle as of year-end must be disclosed.
- **All Insurance Recoveries:** The footnotes must include the amount and financial statement template line item for **all** insurance recoveries (not just for impaired capital assets).

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.

This document is provided for informational purposes and is not authoritative. Refer to GASBS No. 42 and the applicable Implementation Guides for additional guidance.

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**Instructions:
Part 3.1**

This part is to identify potential impairments as follows:

- A) **Possible Impairment of Capital Assets** (including intangible assets reported as a capital asset in accordance with GASBS No. 51): As of June 30, 2017, did the institution 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 3.3.

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

- Physical damage (e.g., 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 (e.g., lack of funding)

- B) **Impairment Test**: If yes to A, is the decline in service utility of the capital asset significant **and** unexpected? If yes, go to C. If no, go to 3.3.

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, go to D. If no, go to 3.2.

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 additional guidance.

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Instructions:
Part 3.1,
continued

D) **Financial Statement Template Reporting & Footnote Disclosure:** If yes to A, B, and C, has the impairment loss and related insurance recoveries (if applicable) been properly reported on the FST in accordance with GASBS No. 42? If **no**, provide an explanation. If **yes**, provide the following: impairment loss, insurance recoveries recognized in fiscal year 2017 included in the net impairment gain/(loss) calculation and the FST line item on which the net gain/(loss) on the impairment is reported.

Notes: For **impaired capital assets that will continue to be used by the institution**, the impairment loss that should be written off should be measured by one of the following methods: restoration cost approach, service units approach, or deflated depreciation replacement cost approach. For **impaired capital assets that will no longer be used by the institution or capital assets impaired from construction stoppage**, they should be reported at the lower of carrying value or fair value.

Loss on capital assets that became permanently impaired during fiscal year 2017 must be reported on the financial statement template as program expenses–loss on sale/disposal/impairment of capital assets, extraordinary item, or special item. Use professional judgment to determine the appropriate FST line item.

Also, per GASBS No. 42 paragraph 21, if insurance recoveries are received in the same year as the impairment loss, the impairment loss should be reported net of the associated insurance recovery. Also, per GASBS No. 42 paragraph 17 - footnote 6, this guidance also applies to insured impairments that result in an accounting gain.

Part 3.2, 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.

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Part 3.3, Other Insurance Recoveries

For any insurance recoveries that are not reported in Part 3.1D and do not represent insurance recoveries for pollution remediation obligations reported on TAB 7 Parts 14d or 14e*, provide the amount and financial statement template line item. Also, provide a description.

Note: This includes current year insurance recoveries for capital assets impaired in prior years. It also includes all other insurance recoveries (i.e. recoveries for embezzlement of cash, theft) except those for pollution remediation obligations. Insurance recoveries should be reported on the financial statement template as program revenue-operating grants & contributions, program revenue-capital grants & contributions, and/or extraordinary item. Use professional judgment to determine the appropriate FST line item.

Note *: Insurance recoveries for pollution remediation obligations are addressed on TAB 7 Part 14 regarding GASBS No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations.

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Examples

The examples below are for a building that was impaired because of a fire. The following examples do not include restoration or replacement costs which should be reported as a separate transaction from the impairment loss and associated insurance recovery.

	Impairment loss (prior year)	Impairment loss (current year)	Insurance Recovery (current year)	Net Gain/(Loss)on impairment (current year)
Example 1		(200,000)	150,000	(50,000)
Example 2		(200,000)	250,000	50,000
Example 3		(200,000)	0	(200,000)
Example 4	(200,000)	0	150,000	

Below are example FST entries for the current year from the above examples

Example 1:

Cash	150,000	
Extraordinary item (net loss) (see Note A)	50,000	
Accumulated depreciation-buildings		200,000

Example 2:

Cash	250,000	
Extraordinary item (net gain) (see Note B)		50,000
Accumulated depreciation-buildings		200,000

Example 3:

Extraordinary item (see Note A)	200,000	
Accumulated depreciation-buildings		200,000

Example 4:

Cash	150,000	
Extraordinary item (Note C)		150,000

Note: For example 4, since the insurance recovery was not recognized in the same year as the impairment loss, the insurance recovery is not netted with the impairment loss for the current year. Also, the \$200,000 impairment loss should have been recorded in the prior year.

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Examples, continued

Note A: Depending on the circumstances of the impairment, the other FST line items that this loss could be reported on are as follows:

- Expenses-Loss on Sale/Disposal/Impairment of Capital Assets
- Special Item

Note B: Depending on the circumstances of the impairment, the other FST line items that this gain could be reported on are as follows:

- Gain on Sale/Disposal/Impairment of Capital Assets
- Special Item

Note C: Depending on the circumstances of the impairment, the other FST line items that this insurance recovery could be reported on are as follows:

- Program Revenue-Operating Grants & Contributions
- Program Revenue-Capital Grants & Contributions

As a reminder, per GASBS No. 34 the definitions of extraordinary items and special items are as follows.

- Extraordinary item: Transactions or events that are **both** unusual in nature and infrequent in occurrence.
- Special item: Significant transactions or other events **within the control of management** that are either unusual in nature **or** infrequent in occurrence.

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Examples, continued

The following provides guidance on how to report the example entries on the TAB 3:

Example 1: Record on TAB 3 Part 3.1D as follows:

Financial Statement Template line item:	Impairment loss \$ (record as a negative)	Insurance Recovery \$ included in the net impairment gain/(loss) calculation (record as a positive)	Net Gain/(Loss) on Impairment
Expenses-Loss on Sale/Disposal/Impairment of Capital Assets			
Special Item			
Extraordinary Item	-200,000	150,000	-50,000
Gain on Sale/Disposal/Impairment of Capital Assets			

Example 2: Record on TAB 3 Part 3.1D as follows:

Financial Statement Template line item:	Impairment loss \$ (record as a negative)	Insurance Recovery \$ included in the net impairment gain/(loss) calculation (record as a positive)	Net Gain/(Loss) on Impairment
Expenses-Loss on Sale/Disposal/Impairment of Capital Assets			
Special Item			
Extraordinary Item	-200,000	250,000	50,000
Gain on Sale/Disposal/Impairment of Capital Assets			

Example 3: Record on TAB 3 Part 3.1D as follows:

Financial Statement Template line item:	Impairment loss \$ (record as a negative)	Insurance Recovery \$ included in the net impairment gain/(loss) calculation (record as a positive)	Net Gain/(Loss) on Impairment
Expenses-Loss on Sale/Disposal/Impairment of Capital Assets			
Special Item			
Extraordinary Item	-200,000		-200,000
Gain on Sale/Disposal/Impairment of Capital Assets			

Example 4: Record on TAB 3 Part 3.3*

Financial Statement Template line item	Other Insurance Recoveries \$
Program Revenue - Operating Grants and Contributions	
Program Revenue - Capital Grants and Contributions	
Extraordinary Item	150,000

Note*: Since the impairment took place in the prior year and the insurance recovery took place in the current year, no amount would be reported on the TAB 3 Part 3.1D and only the insurance recovery would be reported on the TAB 3 Part 3.3.

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