



**Impairment of Capital Assets Policy**

Policy Area: <b>Accounting &amp; Financial Reporting</b>	Effective Date: <b>7/1/2005</b>
Policy Sub Area: <b>Capital Assets</b>	Last Revision Date: <b>1/31/2015</b>
Authority: <b>GASB Codification Section 1400</b>	Policy Owner/Division: <b>Statewide Accounting</b>

**Policy**

State Agencies

State agencies should assess their capital assets at least annually to determine if they have any impaired capital assets with material carrying values. OSC will request information relating to capital asset impairments in the year-end CAFR package. Based on the information provided, OSC will determine if the impairment needs to be recognized in the State CAFR. OSC will calculate any impairment losses and will make entries in NCAS (or will provide entries to agencies) to report any such losses. In addition, OSC will notify state agencies of the adjustment amount that should be recorded in the fixed asset system to reduce the carrying value of impaired capital assets. State agencies should post these adjustments to the fixed asset system during the next fiscal year as a prior period adjustment.

Component Units

Component units should assess their capital assets at least annually to determine if they have any impaired capital assets with material carrying values. If any such impaired capital assets are identified, component units should calculate the related impairment losses and make entries in their accounting system to report any such losses. In addition, adjustments should be recorded in the fixed asset system to reduce the carrying value of impaired capital assets. Colleges and universities should post any adjustments to fixed assets by June 30.

**Procedures**

NA

## Accounting Guidance

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The events or changes in circumstances affecting a capital asset that may indicate impairment should be prominent (i.e., conspicuous or known to the unit). That is, the events or circumstances that may indicate impairment generally are expected to have already been the subject of discussion by the governing board or management or would otherwise have been the topic of media coverage.

Common indicators that a capital asset may be impaired are:

- *Evidence of physical damage.* Examples include a building damaged in a natural disaster (e.g., hurricane or tornado) or a fire, or a building facing the costs associated with mold remediation or asbestos removal.
- *Changes in legal or environmental factors.* Examples include underground storage tanks or water treatment plants that cannot meet new EPA requirements.
- *Technological change or obsolescence.* Examples include magnetic resonance imaging (MRI) equipment of the enclosed type following the introduction of the more popular open models or other diagnostic or research equipment that is rarely used because newer equipment provides better service.
- *Changes in manner or duration of use.* Examples include a school building now used as a warehouse, the closure of a street prior to the end of its useful life for safety reasons, or the closure of a school prior to the end of its useful life because of a decline in enrollment.
- *Permanent construction stoppage.* Examples include the halting of building construction due to a lack of funding or a stoppage following the discovery of an endangered species at a construction site.
- *Development stoppage.* An example includes stoppage of development of computer software due to a change in the priorities of management.

## Related Documents (Memos/Forms)

Implementation guidance on GASB Statement 42 provided in the following OSC memorandums:

- College and Universities - [Memorandum # SAD 06-17](#) and [attached summary](#)
- State agencies/other component units - [Memorandum # SAD 06-25](#) and [attached summary](#)

## **Revision History**

<b>Date</b>	<b>Description</b>
01/31/2015	Updated indicators of impairment to include development stoppage (GASB 51)