Procedures 7.3.7 Impairment of Capital Assets

Part 1. Purpose
To establish accounting and financial reporting standards for impairment of capital assets and insurance recoveries in conformity with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) pronouncements.

Part 2. Definitions
For the purpose of this procedure only, the following words and terms are defined as the follows.

Asset impairment
A capital asset is considered impaired when its service utility has declined significantly and unexpectedly.

Capital asset
In accordance with system Procedure 7.3.6, a capital asset is defined as an asset with a useful life greater than two (2) years, a cost (or value if donated) greater than a defined capitalization dollar amount that maintains its identity while in use.

Part 3. Measurement of Asset Impairment
For assets that will remain in service, there are three (3) methods for calculating the amount by which a capital asset has been impaired.

1. **Restoration cost approach.** This method uses the cost of restoring a capital asset's service potential as a basis for calculating the relative portion of the historical cost of the asset that has been impaired. The estimated restoration cost can be converted to historical cost either by restating the estimated restoration cost 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.
2. **Service units approach.** This method compares productivity before and after an impairment to determine the relative portion of the historical cost of the capital asset that has been impaired. The amount of impairment is determined by evaluating the service provided by the capital asset − either maximum estimated service units or total estimated service units throughout the life of the capital asset - before and after the event or change in circumstance.
3. **Deflated depreciated replacement cost approach.** This method calculates what the depreciated cost of a capital asset acquired at the same time, but for a different purpose, would have been to determine the relative portion of the historical cost of the capital asset

that has been impaired. A current cost for a capital asset to replace the current level of service is estimated. This estimated current cost is depreciated to reflect the fact that the capital asset is not new, and then is deflated to convert it to historical cost dollars.

Part 4. Identification and Measurement of Impairment Losses
There are five specific situations that may indicate that capital asset impairment has occurred:

1. **Evidence of physical damage.** Examples include a building damaged in a windstorm or a building requiring mold remediation. If the capital asset will continue to be used (or will be upon restoration of the capital asset), use restoration cost approach to measure impairment. If the capital asset will no longer be used, use the lower of the carrying value or fair value.
2. **Technological changes or obsolescence.** For example, medical equipment that can still be used, but for which demand is expected to significantly decrease with the advent of additional, more attractive treatment options. If the capital asset will continue to be used, use service units approach to measure impairment. If the capital asset will no longer be used, use the lower of the carrying value or fair value.
3. **Changes in manner or duration of use.** A capital asset put to a significantly less valuable use than the one for which it was intended. For example, a classroom building now used as a warehouse. If the capital asset will continue to be used, use the deflated depreciated replacement cost or service units approach. If the capital asset will no longer be used, use the lower of the carrying value or fair value.
4. **Changes in legal or environmental factors.** For example, an underground storage tank that is no longer usable as the result of changes in environmental standards. If the capital asset will continue to be used, use the service units approach. If the capital asset will no longer be used, use the lower of the carrying value or fair value.
5. **Construction stoppage.** A construction project may need to be abandoned for legal or practical reasons. Use the lower of the carrying value or fair value.

Part 5. Reporting Impairment Losses and Insurance Recoveries
Unless the impairment is considered temporary, the loss from impairment must be reported in the Statement of Revenues, Expenses, and Changes in Net Position as an operating expense, special item, or extraordinary item in accordance with the guidance in GASB Statement 34 and Accounting Principles Board Opinion No. 30. Impairment losses appropriately reported as program expense must be reported as a direct expense of the program that uses or used the impaired capital asset. If not otherwise apparent from the face of the financial statements, a general description, the amount, and the financial statement classification of the impairment loss must be disclosed in the notes to the financial statements.

The impairment loss must be reported net of the associated insurance recovery when the recovery and loss occur in the same year. Insurance recoveries reported in subsequent years must be reported as non-operating revenue, or extraordinary item, as appropriate. Insurance recoveries will be recognized only when realized or realizable.

Impaired assets that will no longer be used by the university or college must be reported at the lower of carrying value or fair value. If the assets are disposed of, the disposal provisions of Procedure 7.3.6 Capital Assets are applicable.

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05/17/16 - Deleted Part 1, Authority. Amended Part 2, Definitions, Capital asset. Moved Part 5, Measurement of Asset Impairment to Part 3, and deleted the chart. Amended Part 4, Identification and Measurement of Impairment Losses.