GASB 42 IMPLEMENTATION ISSUES

Disposition of Impaired Assets

Issue

To determine the criteria for categorizing potentially impaired capital assets as to which will be restored, replaced, or abandoned, in order to identify assets with impairment losses per GASB 42.

Background

Many state assets have suffered damage as a result of Hurricanes Katrina and Rita. These may be considered impaired according to GASB 42. Potentially impaired assets can be separated into the following categories:

1) assets that will not be returned to service
2) assets temporarily out of service due to needed repairs, restoration, or recertification
3) assets remaining in service but needing repair
4) assets damaged that will continue to be used that will not be repaired

If the assets will no longer be used (category 1), then the value of the asset has shifted away from providing service to the cash it could generate if sold. These assets will either be replaced by a brand new asset, or abandoned as no longer necessary. The asset then would be reported at the lower of carrying value or fair value (if destroyed, then zero). An impairment loss per GASB 42 **will not** be calculated for these assets.

If the assets are going to be restored (category 2 and 3), then **they need to be evaluated for impairment per GASB 42.** Per discussion with Roberta Reese from GASB, depreciation should be suspended for all category 2 assets that are temporarily out of service if being idle extends the asset's useful life, and the only factor affecting the useful life is the asset being used. However, the more technical the asset, the more likely that depreciation should not be suspended, because its useful life is not being extended by being idle. In fact, its useful life may be shortened if it is being subjected to an adverse condition, such as a lack of climate control.

An asset temporarily out of service because of need of repair does not mean that the impairment is temporary. Per GASB 42, paragraph 59, if management would have to take action to reverse the impairment, such as restoration of a capital asset with physical damage, the impairment should be considered permanent.

If an asset is damaged, but still used by the agency or entity and no plans are made to restore it (category 4), then it would not meet the proposed impairment threshold test and no impairment loss would be calculated. It could possibly fall under GASB 42 Paragraph 19 – "Capital Assets that do not meet the Impairment Test", in which the estimates used in the depreciation calculation should be reevaluated and changed, if necessary.

Recommendation

OSRAP proposes state entities classify potentially impaired assets into the following categories to help identify which assets will be evaluated for impairment per GASB 42:

1) assets that will not be returned to service
2) assets temporarily out of service due to needed repairs, restoration, or recertification
3) assets remaining in service but needing repair
4) assets damaged that will continue to be used that will not be repaired

Movable property that falls into category 1 should be reported to LPAA on the Protégé system when the assets are disposed of. Only category 2 and 3 assets will be evaluated for impairment. These are the assets that will be restored by the government. Category 2 assets will not have depreciation suspended on those assets whose useful life will not be extended while the asset is idle. For those assets with physical damage that meet the impairment threshold test proposed in the *Impairment Test Criteria* issue paper, the restoration cost approach will be used to calculate the impairment. Category 4 assets should be evaluated to determine if the estimated useful life needs to be reevaluated, if necessary.

OSRAP proposes that impairment losses generally should only be reported for capital assets that are known to be impaired. If significant additional assets are found to be impaired in a subsequent year, then a prior period adjustment will be made. However, if the entity feels that a significant number of impaired assets will not be identified until a subsequent fiscal year, then the entity may be able to extrapolate an amount of impairment loss to assets that have not been evaluated by the end of the year by comparing to similar assets that are known to be impaired, per discussion with Roberta Reese from GASB.