



Minnesota State Colleges and Universities System Procedures Chapter 7 – General Finance Provisions

Procedures 7.3.7 Impairment of Capital Assets

Part 1. Authority. Board Policy 7.3, Financial Administration, delegates authority to the chancellor to develop procedures to implement this policy.

GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, is effective for fiscal periods beginning on or after December 15, 2004.

Part 2. Objective. 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 3. Definitions

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

Capital Asset – In accordance with MnSCU Procedure 7.3.6, Capital Assets are defined as an asset with a useful life greater than two (2) years, a cost (or value if donated) greater than \$5,000 (\$2,000 for fiscal years prior to July 1, 2003), and maintains its identity while in use. These include:

- Land and land improvements
- Easements
- Buildings and building improvements
- Vehicles
- Equipment
- Weapons
- Property rights related to capitalized leases
- Works of art, historical treasures, and other similar assets
- Library collections
- All other tangible or intangible assets used in operations

Part 4. Identifying Impairment Losses. Five (5) 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.

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.
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. Examples would include a classroom building now used as a warehouse.
4. **Changes in legal or environmental factors.** An example is an underground storage tank that is no longer usable as the result of changes in environmental standards.
5. **Construction stoppage.** A construction project may need to be abandoned for legal or practical reasons.

Part 5. Measurement of Asset Impairment. There are three (3) different methods for calculating the amount by which a capital asset has been impaired for assets that will remain in service.

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.

SUMMARY OF INDICATORS AND METHODS OF MEASUREMENT

The following table summarizes the general types of impairments and the methods of measuring impairment in these circumstances.

Selection of Methods of Measuring Impairment	
Indicator of Impairment	Method Generally Used in Measuring Impairment
Evidence of physical damage (i.e. a building damaged in a fire or windstorm, or a building requiring	If the capital asset will continue to be used (or will be upon restoration of the capital asset), use <i>restoration cost approach</i> .

mold remediation)	If the capital asset will no longer be used, use lower of carrying value or fair value.
Technological development or evidence of obsolescence (i.e. Scientific or medical equipment that can still be used, but for which demand is expected to significantly decrease with the advent of additional, more attractive options)	If the capital asset will continue to be used, use <i>service units approach</i> . If the capital asset will no longer be used, use lower of carrying value or fair value.
Change in manner or duration of use (i.e. classroom building now used as a warehouse)	If the capital asset will continue to be used, use <i>deflated depreciated replacement cost or service units approach</i> . If the capital asset will no longer be used, use lower of carrying value or fair value.
Enactment or approval of laws or regulations or other changes in environmental factors (i.e. 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 <i>service units approach</i> . If the capital asset will no longer be used, use lower of carrying value or fair value.
Construction stoppage	Use lower of carrying value or fair value.

Part 6. Reporting Impairment Losses and Insurance Recoveries. Unless the impairment is considered temporary, the loss from impairment should be reported in the Statement of Revenues, Expenses, and Changes in Net Assets as a program or 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 generally should 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 should be disclosed in the notes to the financial statements.

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

Impaired assets that will no longer be used by the university or college should 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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