



UT System Administration Policy Library – Policy UTS142. 9  
**Policy for Accounting and Financial  
Reporting for Impairment of Capital Assets  
and Insurance Recoveries**

Responsible Officer: Associate Vice Chancellor – Controller and Chief Budget Officer

Sponsoring Office: Office of the Controller

Effective Date: October 10, 2006

Last Reviewed: November 9, 2009

Next Scheduled Review: June 1, 2012

Errors or changes to: [policyoffice@utsystem.edu](mailto:policyoffice@utsystem.edu)

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## **POLICY STATEMENT**

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Each institution should undertake an evaluation each year to determine if assets have been impaired. If it is determined that assets were impaired, the impairment should be measured, recorded, and disclosed. Insurance recoveries associated with asset impairments should be netted against the impairment loss when recoveries are received in the year of the impairment and reported as other nonoperating income when received in a subsequent year. Insurance recoveries for circumstances other than asset impairments should be reported net of the associated loss when recoveries are received in the year of the impairment and reported as other nonoperating income when received in a subsequent year.

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## **RATIONALE**

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This Accounting Policy addresses the accounting and financial reporting requirements for impairment of capital assets and insurance recoveries.

This policy is intended to comply with Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

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## **SCOPE**

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All institutions and UT System Administration

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## **WEBSITE ADDRESS FOR THIS POLICY**

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[http://www.utsystem.edu/policy/ov/uts142\\_9.html](http://www.utsystem.edu/policy/ov/uts142_9.html)

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## RELATED STATUTES, POLICIES, REQUIREMENTS OR STANDARDS

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UT System Administration Policies & Standards	Other Statutes, Policies & Standards
	GASB Statement No. 42, <a href="#">Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.</a>

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## CONTACTS

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If you have any questions about UT System Administration Policy UTS 142.9, *Policy for Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, contact the following offices:

Subject	Office Name	Telephone Number	Email/URL
	Office of the Controller	512-499-4527	<a href="mailto:Controllersoffice@utsystem.edu">Controllersoffice@utsystem.edu</a> <a href="http://www.utsystem.edu/cont/">http://www.utsystem.edu/cont/</a>

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## DEFINITIONS

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None

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## RESPONSIBILITIES

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### UT Institution

- Undertakes an evaluation each year to reveal asset impairments or possible asset impairments.

### **Financial Reporting Officer**

- Records insurance recoveries, according to instructions outlined in Procedures.

### **Office of the Controller**

- Interprets and revises this policy as necessary to comply with statutory requirements and to meet the changing needs of The University of Texas System.

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## **PROCEDURES**

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### **A. OVERVIEW**

#### **1. Asset Impairment**

Governmental Accounting Standards Board (GASB) Statement No. 42, paragraph 5 defines asset impairment as “a significant, unexpected decline in the service utility of a capital asset.” The events or changes in circumstances that lead to impairments are not considered to be normal and ordinary. That is, at the time the capital asset was acquired, the event or change in circumstance would not have been expected to occur during the useful life of the asset.

Each institution must undertake an evaluation each year that must include the following basic steps:

- Identify “potential” impairments.
- Perform tests for impairment.
- Measure the impairment.
- Record and report the impairment loss.
- Disclose the impairment loss.

A detailed decision tree is provided in Exhibit 1, Asset Impairment Decision Process.

#### **2. Insurance Recoveries**

GASB Statement No. 42, paragraph 21 outlines the appropriate financial reporting treatment for insurance recoveries. Insurance recoveries should be recognized only when they are realized or realizable. In general, the steps to record insurance recoveries are as outlined below.

For insurance recoveries related to capital assets:

- Record the impairment loss as an operating expense when no recovery is received in the same year. (In the highly unlikely event the loss and recovery qualify as either special or extraordinary, (see definition in Step 4) the loss and recovery would be recorded as part of Other Changes in Net Assets.)
- Record the impairment loss net of recovery as an operating expense, when the loss and recovery occur in the same year. (In the highly unlikely event the loss and recovery qualify as either special or extraordinary, as defined, the loss and recovery would be recorded as part of Other Changes in Net Assets.)
- Record the recovery as nonoperating income, if the recovery occurs in a subsequent year.
- Record the recovery in the statement of cash flows as Proceeds from Insurance Recovery in the Capital and Related Financing Activities section (GASB Statement No. 9, ¶24d).
- Disclose the amount and classification of the insurance recovery.

The restoration or replacement of an impaired capital asset should be reported as a separate transaction from the impairment loss and associated insurance recovery.

A detailed decision tree is provided in Exhibit 2, Insurance Recovery Decision Process for Insurance Recoveries Related to Impairment of Capital Assets.

For insurance recoveries unrelated to capital assets, e.g., theft, embezzlement of cash or other monetary assets, etc:

- Record the loss as a nonoperating loss.
- Record the loss as a nonoperating loss, net of recovery, when the loss and recovery occur in the same year.
- Record the recovery as nonoperating income, if the recovery occurs in a subsequent year.
- Record the recovery in the statement of cash flows as Other Receipts (Payments) in the Noncapital Financing Activities section (GASB Statement No. 9, ¶21c).
- Disclose the amount and classification of the insurance recovery.

A detailed decision tree is provided in Exhibit 3, Insurance Recovery Decision Process for Insurance Recoveries Unrelated to Impairment of Capital Assets.

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## FORMS AND TOOLS/ONLINE PROCESSES

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[Exhibit 1](#) Asset Impairment Decision Process

[Exhibit 2](#) Insurance Recovery Decision Process for Insurance Recoveries Related to Impairment of Capital Assets

[Exhibit 3](#) Insurance Recovery Decision Process for Insurance Recoveries Unrelated to Impairment of Capital Assets

[Exhibit 4](#) Impairment Loss Summary Worksheet: Capital Assets

[Exhibit 5](#) Footnote Disclosure Report: Impairment Losses and Insurance Recoveries

[Deflated Estimated Restoration Cost Impairment Calculator](#)

[Restoration Cost Impairment Calculator](#)

[Service Units Cost Impairment Calculator](#)

[Deflated Depreciated Replacement Cost Impairment Calculator](#)

[Guidelines to Determine Asset Impairment and Reporting of Insurance Recoveries](#)

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## **APPENDIX**

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Keywords: accounting, assets, insurance, asset, financial

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