

1. Title

Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries

2. Policy

Sec. 1 Purpose. The purpose of this accounting Policy is to address 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*.

Sec. 2 Policy Statement. Each University of Texas System 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 non-operating income when received in a subsequent year. Insurance recoveries for circumstances other than asset impairments should be reported as net of the associated loss when recoveries are received in the year of the impairment and reported as other non-operating income when received in a subsequent year.

Sec. 3 Overview.

3.1. Asset Impairment.

(a) 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.

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

- i. identify potential impairments;
- ii. perform tests for impairment;

- iii. measure the impairment;
 - iv. record and report the impairment loss; and
 - v. disclose the impairment loss.
- (c) A detailed decision tree is provided in Exhibit 1, *Asset Impairment Decision Process*.
- 3.2 Insurance Recoveries.
- (a) 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.
- (b) For insurance recoveries related to capital assets
- i. 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, the loss and recovery would be recorded as part of Other Changes in Net Assets.)
 - ii. 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, the loss and recovery would be recorded as part of Other Changes in Net Assets.)
 - iii. Record the recovery as non-operating income if the recovery occurs in a subsequent year.
 - iv. Record the recovery in the statement of cash flows as Proceeds from Insurance Recovery in the Capital and Related Financing Activities section. See GASB Statement No. 9, Paragraph 24d).
 - v. 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*.

- (c) For insurance recoveries unrelated to capital assets, e.g., theft, embezzlement of cash, or other monetary assets, etc.
 - i. Record the loss as a non-operating loss.
 - ii. Record the loss as a non-operating loss, net of recovery, when the loss and recovery occur in the same year.
 - iii. Record the recovery as non-operating income if the recovery occurs in a subsequent year.
 - iv. Record the recovery in the statement of cash flows as Other Receipts (Payments) in the Non-capital Financing Activities section (GASB Statement No. 9, Paragraph 21c).
 - v. 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*.

3. Definitions

Extraordinary Impairment Loss - The extraordinary impairment loss category includes losses that are not within the control of institutions or University management and are both unusual in nature and infrequent in occurrence (GASB Statement No. 34, Paragraph 55). Deloitte & Touche has indicated that hurricanes are not extraordinary for UTMB due to their close proximity to the Gulf of Mexico.

Special Impairment Loss - The special impairment loss category includes impairment losses that are associated with circumstances within the control of institution or University management and are either unusual in nature or infrequent in occurrence (GASB Statement No. 34, Paragraph 56).

4. Relevant Federal and State Statutes, Policies, and Standards

[GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries](#)

[GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting](#)

5. Relevant System Policies, Procedures, and Forms

[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](#)

6. System Administration Office(s) Responsible for Policy

Office of the Controller

7. Dates Approved or Amended

October 10, 2006

November 9, 2009

October 23, 2012