

Sacramento Suburban Water District

Impaired Capital Asset Policy

Adopted: July 16, 2007
Ratified without changes: October 16, 2023

100.00 Purpose of the Policy

To implement the requirements of Governmental Accounting Standards Board (GASB) Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries” (GASB 42). The requirements of GASB 42 only apply to capital assets **with material carrying values** (e.g. this standard would not apply to fully depreciated capital assets). GASB 42 defines asset impairment as “a significant, unexpected decline in the service utility of a capital asset.” The significant and unexpected decline is based on events or changes in circumstances that were not anticipated when the capital asset was placed in service. Service utility, as defined by GASB 42, refers to the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization, which is the portion of the usable capacity currently being used.

200.00 Policy

Departments should contact Finance if they suspect that a capital asset is impaired. The determination of whether a capital asset is impaired is a two-step process of identifying potential impairments and testing for the impairment. Impairment losses recognized in accordance with this policy should not be reversed in a future year, even if events or circumstances that caused the impairment have changed. If the District has material capital assets that are impaired or potentially impaired, a determination needs to be made as to whether the impairment loss should be reported and disclosed.

The District will implement procedures to conform to the requirements of GASB 42.

200.10 Capital Asset Impairment Evaluation

When events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined, impairment is indicated. Common indicators of impairment, as stated by GASB 42, paragraph 9, include:

1. Evidence of physical damage, such as for a building damaged by fire or flood, when the level of damage is such that restoration efforts are needed to restore service utility.
2. Enactment or approval of laws or regulations or other changes in environmental factors, such as new water quality standards that a water treatment plant does not meet (and cannot be modified to meet).

3. Technological development or evidence of obsolescence, such as that related to a major piece of diagnostic or research equipment (for example, a magnetic resonance imaging machine or a scanning electron microscope) that is rarely used because newer equipment provides better service.
4. A change in the manner or expected duration of use of a capital asset, such as closure of a school prior to the end of its useful life. If a government intends to sell an asset, but it is still being used until it is sold, it is not an indicator of potential impairment. However, if the asset will not continue to be used, it may qualify as a potential impairment indicator.
5. Construction stoppage, such as stoppage of construction of a building due to lack of funding.

The list above is not all-inclusive. Professional judgment must be used to identify other events and changes that could indicate impairment.

Generally, impairment is considered permanent. If the impairment is temporary, the historical cost of the capital asset should not be written down. An asset should only be considered temporarily impaired if there is evidence to support such a conclusion. Temporary impairments are generally only associated with enactment or approval of laws or regulations or other changes in environmental factors, changes in technology or obsolescence, changes in manner or duration of use, or construction stoppage. If management would be required to take action to reverse the impairment, the impairment would be considered permanent. Thus, if physical damage causes impairment to a capital asset, the impairment would be considered to be permanent.

200.20 Testing for Impairment

If a potential impairment is indicated by one of the five factors above, or by some other means, then the asset should be tested for impairment. GASB 42 provides for the testing of capital asset impairment by determining whether both of the following factors are present:

1. The magnitude of the decline in service utility is significant. A significant decline is indicated if the continued operating expenses related to the use of the impaired asset or the cost to restore the asset is significant in relationship to the service utility of the asset.
2. The decline in service utility is unexpected. Restoration costs or other impairment circumstances are not part of the normal life cycle of a capital asset, and if they were contemplated because of an event or change, that development would suggest an unexpected decline in service utility. Normal maintenance costs or preservation costs do not suggest capital asset impairment.

200.30 Insurance Recoveries

An insurance recovery should be recorded in the fiscal year in which it is realized or realizable. For example, an insurance recovery would be realizable if an insurer has admitted or acknowledged coverage. The insurance recovery generally would not be realizable if the insurer has denied coverage.

300.00 Policy Review

This policy shall be periodically reviewed by the Board of Directors in accordance with its established policy review schedule.