



State of North Carolina Office of the State Controller

Michael F. Easley, Governor

Robert L. Powell, State Controller

February 28, 2006

MEMORANDUM NO. SAD 06-17

TO: Vice Chancellors
Business Managers

FROM: Robert L. Powell, State Controller

SUBJECT: GASB Statement No. 42 Implementation Issues

In November 2003, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB 42). This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Before the issuance of this Statement, there was no specific requirement to reduce the carrying value of a capital asset other than through the application of depreciation. This Statement also clarifies and establishes accounting requirements for insurance recoveries, including those not associated with asset impairments.

The requirements of GASB 42 are effective for the State fiscal year ending June 30, 2006. Therefore, colleges and universities, which are component units of the State of North Carolina, should begin planning for the implementation of this new Statement.

As an initial step, institutions should identify any impaired capital assets that exist as of July 1, 2005 and calculate the related impairment loss, **if the asset's carrying value is material**. For these assets, the impairment loss will need to be reported as a prior period adjustment and beginning net assets will need to be restated. Since institutions operate on a cash basis during the year, the prior period adjustments and the accrual entries needed to comply with this standard should be made during the thirteenth period for the 2005-06 fiscal year. For universities, these adjustments should be recorded in the accounting system and interfaced to NCAS.

Community colleges will be assigned an expense object by the System Office to report any impairment losses and will be notified by the System Office at a later date on which object to build into their chart of accounts. Universities should use the following NCAS account to report any impairment losses recognized during the 2005-06 fiscal year:

535630	Capital Asset Writedowns (operating expense)
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We will send a follow-up survey in a few weeks to obtain information about your impaired capital assets. Our office will also request information relating to capital asset impairments in the year-end CAFR package for the fiscal year ending June 30, 2006.

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To assist with your implementation, we have attached a comprehensive summary of GASB 42. The attached summary also includes a *Checklist for Assessing Capital Asset Impairments* (see Appendix A), an illustrative example for a building with physical damage (see Appendix B), and an illustrative example on the retroactive application of GASB 42 (see Appendix C). The checklist in Appendix A will assist institutions in determining if they have any impaired capital assets and will also provide documentation for their auditors.

Please refer to the following for additional information on GASB 42:

- Copies of GASB 42 can be obtained by calling the GASB at (800) 748-0659 or by placing an order online at www.gasb.org (click "Publications" link).
- Appendix C of GASB 42 presents illustrative examples of asset impairments and the various methods used to calculate the amount of the impairment.
- The *GASB's Comprehensive Implementation Guide - 2005* includes questions on asset impairment (see questions 7.466 through 7.475).
- The November 2003 issue of the *GAAFR Review* examines in detail the new guidance offered in GASB 42. [Note: The *GAAFR Review* is the Government Finance Officers Association's (GFOA) monthly newsletter on government accounting, auditing, and financial reporting. To subscribe to the *GAAFR Review*, call the GFOA at (312) 977-9700 or email them at GAAFRReview@gfoa.org.]

If you have any questions about the statewide implementation of GASB 42, please contact Clayton Murphy at (919) 981-5474 or cmurphy@ncosc.net.

Attachment