

GASB 42 Revisited

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As accountants, auditors and consultants, we find ourselves living in a world that seems to change faster than we might be comfortable with. Normally, we focus on the changes that are on the horizon so that we may educate ourselves and others and with our newfound knowledge, we devise plans that allow us to implement changes successfully. In this post, however, we are going to take a look back at a previously issued accounting standard that could have some significant effects on your agency.

Back in November 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. That is a long title and you might be wondering what this has to do with your organization 18 years later. The standard addresses the concept of asset impairment and provides guidance for how to account for and report these types of assets. Let us revisit a few key points.

First, a definition refresher. Asset impairment occurs when there is a significant, unexpected decline in the ability to use an asset as originally intended. This could include events such as a natural disaster that causes significant physical damage which requires restoration. Other factors such as regulatory changes or technological developments could alter the expected use of the asset. Lastly, changing demographics could alter the expected use of the asset sooner than expected because of a change in demand for the asset.

If you think you might have an asset impairment, you must go through a few steps to determine whether the asset is in fact impaired. Further, you must evaluate whether the impairment is temporary or permanent. If you conclude that your asset is in fact permanently impaired, the asset must be revalued in the organization's fixed asset records and ultimately the external financial statements.

Since governments tend to use all their resources to the end of their useful life, the government may decide to continue using the impaired asset. In those cases, the GASB has laid out some methods to determine the dollar value of impairment for the write off. If the asset will no longer be used by the government, it should be revalued based on the lower of carrying or fair value.

The current pandemic and shifting focus on working from home or educating students remotely is certainly an unexpected event to which your government has been devoting significant attention. Discussions about whether to allow employees to remain working remotely or require them to work on site, or offering remote learning opportunities are certainly hot topics. However, the results of these discussions on whether to reduce office space or repurpose or close schools also have an effect on the financial statements. Accounting and finance staff in governments should be informed of decisions so appropriate actions can be taken to ensure accurate reporting in the organization's records and financial statements.

For additional information on the impairment of capital assets, see [GASB Statement No. 42](#) and as always, make sure to talk with your auditors.

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