

## **FAS 144 FREQUENTLY ASKED QUESTIONS (FAQs)**

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### **1. What is FAS 144 – Impairment of Long-Lived Assets?**

In October 2001, the Financial Accounting Standards Board issued Statement 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144). FAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. FAS 144 is effective for fiscal years beginning after December 15, 2001 and was adopted by Chugach for fiscal year 2002.

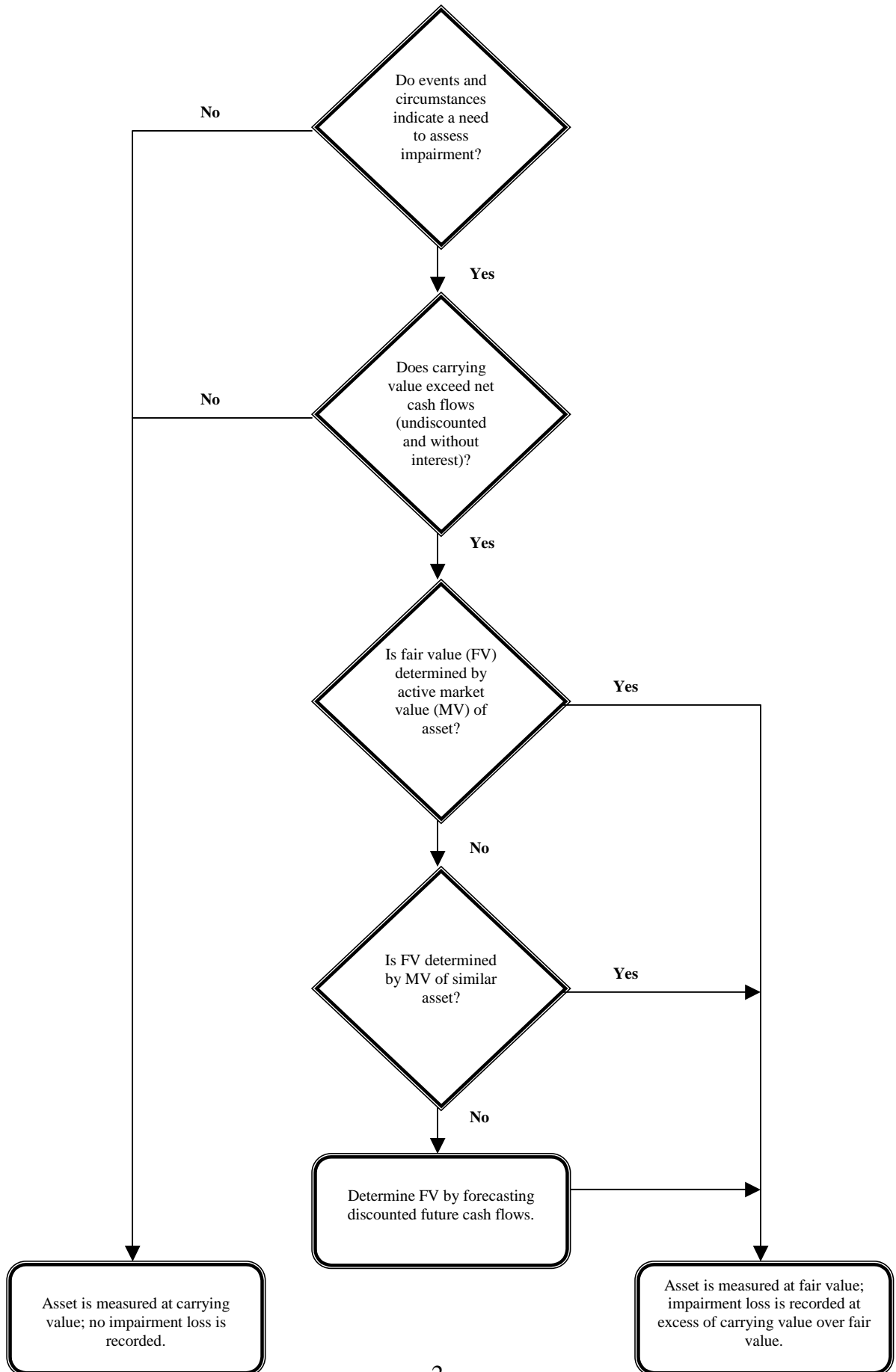
### **2. Does Chugach have any assets, not previously evaluated, that should be evaluated under FAS 144?**

No. With the exception of the Commercial Microwave assets, the cost of all of Chugach's assets are being recovered through our electric rates. The cost of the Commercial Microwave assets are currently being recovered through independent sales contracts and that business venture has positive cash flows, both current and projected.

### **3. Under what circumstances would Chugach be required to evaluate a regulated asset for impairment?**

If the RCA excluded an asset (either in full or in part) or costs associated with the improvement of an asset from Chugach's revenue requirement, Chugach would be required to evaluate that asset class for impairment under FAS-90, Regulated Enterprises – Accounting for Abandonments and Disallowances of Plant Costs.

# FLOWCHART OF FAS 144 – IMPAIRMENT OF LONG-LIVED ASSETS



## **KEY POINTS OF FAS 144 – IMPAIRMENT OF LONG-LIVED ASSETS**

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- Impairment is the condition that exists when the carrying amount of a long-lived asset exceeds its fair value. An impairment loss shall be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount of an asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.
- A long lived asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Examples of such events or changes in circumstances are:
  - A significant decrease in the market price of the asset
  - An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset
  - A current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of an asset
  - A current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life
- For purposes of recognition and measurement of an impairment loss, an asset shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.
- Estimates of future cash flows used to test the recoverability of an asset shall include only the future cash flows that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset.
- Estimates of future cash flows used to test the recoverability of a long lived asset shall incorporate the entity's own assumptions about its use of the asset and shall consider all available evidence. The assumptions used shall be reasonable, such as internal budgets and projections or information communicated to others.
- Estimates of future cash flows used to test the recoverability of an asset that is in use shall be based on the existing service potential of the asset. The service potential of an asset encompasses its remaining useful life, cash flow generating capacity and physical output capacity. Those estimates shall include cash flows associated with future expenditures necessary to maintain the existing service potential of the asset.