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# Governmental Accounting Standards Series

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Statement No. 52 of the  
Governmental Accounting  
Standards Board

**Land and Other Real Estate  
Held as Investments by Endowments**



Governmental Accounting Standards Board  
of the Financial Accounting Foundation

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## Summary

Accounting standards previously required permanent and term endowments, including permanent funds, to report land and other real estate held as investments at their historical cost. Endowments exist to invest resources for the purpose of generating income. Other entities that exist for similar purposes—pension and other postemployment benefit plans, external investment pools, and Internal Revenue Code Section 457 deferred compensation plans—however, report land and other real estate held as investments at their fair value.

This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

### **How This Statement Will Improve Financial Reporting**

This Statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of endowments. It results in property held for similar purposes by comparable entities being reported in the same manner. Reporting land and other real estate held as investments at fair value enhances users' ability to meaningfully evaluate an entity's investment decisions and performance.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.
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November 2007

**Governmental Accounting Standards Board**  
of the Financial Accounting Foundation  
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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# **Statement No. 52 of the Governmental Accounting Standards Board**

## **Land and Other Real Estate Held as Investments by Endowments**

**November 2007**

### **INTRODUCTION**

1. Endowments were previously required to report their land and other real estate held for investment purposes at historical cost. However, such investments are reported at fair value by similar entities, such as pension plans. Questions have arisen regarding the appropriateness of this difference in the accounting standards. The objective of this Statement is to enhance the comparability and usefulness of financial reporting by endowments by establishing a common approach to reporting land and other real estate held as investments.

### **STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING**

#### **Scope and Applicability**

2. This Statement establishes standards for accounting and financial reporting for land and other real estate held as investments by endowments. Endowments include permanent and term endowments, and permanent funds. This Statement does not apply to lands granted by the Federal government in connection with a state being admitted to the United States. It also does not apply to quasi-endowments. This Statement applies to all state and local governments.

3. This Statement amends paragraph 2 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

## **Land and Other Real Estate Held as Investments by Endowments**

4. Land and other real estate held as investments by endowments should be reported at fair value at the reporting date. Changes in fair value during the period should be reported as investment income.

5. Endowments also should apply the applicable disclosure provisions in Statement 31 (paragraph 15) to their land and other real estate held as investments.

## **EFFECTIVE DATE AND TRANSITION**

6. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2008. Earlier application is encouraged. In the first period that this Statement is applied, changes made to comply with this Statement should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. If restatement of the financial statements for prior periods is not practical, the cumulative effect of applying this Statement should be reported as a restatement of beginning net assets (or equity or fund balance, as appropriate) for the earliest period restated (generally, the current period). In the first period that this Statement is applied, the financial statements should disclose the nature of the restatement and its effect.

**The provisions of this Statement need  
not be applied to immaterial items.**

*This Statement was issued by unanimous vote of the seven members of the  
Governmental Accounting Standard Board:*

Robert H. Attmore, *Chairman*  
William W. Holder  
Girard C. Miller  
Jan I. Sylvis  
Marcia L. Taylor  
Richard C. Tracy  
James M. Williams

## **Appendix A**

### **BACKGROUND INFORMATION**

7. Endowments hold assets to provide income for the organization. Endowments were required to report their land and other real estate held as investments at cost. However, other entities that perform similar functions as endowments—such as pension and other postemployment benefit (OPEB) plans—report the same types of investments at fair value. Questions arose regarding this difference in accounting.

8. This issue was brought to the Governmental Accounting Standards Board's (GASB) attention at the July 2005 meeting of the Governmental Accounting Standards Advisory Council. The importance of the issue was highlighted by annual surveys by the National Association of College and University Business Officers (NACUBO) that have shown that real estate is a growing area of investment. In December 2006, the project was added to the GASB's current technical agenda, and an Exposure Draft was issued in March 2007. The Board received 39 comment letters in response to its proposals in the Exposure Draft. Significant issues that were raised by respondents are discussed in the Basis for Conclusions.

9. In arriving at the conclusions presented in this Statement, the GASB considered its own standards and those of the International Public Sector Accounting Standards Board, the Financial Accounting Standards Board, and the American Institute of Certified Public Accountants.

## **Appendix B**

### **BASIS FOR CONCLUSIONS**

10. This appendix summarizes factors considered significant by the Board members in reaching the conclusions in this Statement. It includes discussion of alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

### **Scope and Applicability**

11. This Statement applies to land and other real estate held as investments by endowments. Paragraph 22 of Statement 31 defines an investment as "a security or other asset acquired primarily for the purpose of obtaining income or profit." This Statement does not apply to other types of investments held by endowments, some of which current standards may require to be reported at other than fair value. Some respondents to the Exposure Draft requested that the Board provide further guidance on determining whether real estate that is partially used in operations is an investment. After again discussing the issue, the Board concluded that current guidance is sufficient to make that determination.

12. In response to the Exposure Draft, the Board received comment letters that included suggestions regarding issues that were not within the intended limited scope of the project, such as reporting for lands granted to states when those states were admitted to the United States. In response, the Board clarified the scope of the project to specifically exclude these land grants. The Board notes that many of the other issues raised relate to the guidance in Statement 31 or require discussion in a broader context and, therefore, deferred discussion of those issues to a future investments project.

## **Definition of Endowment**

13. Endowments are found in many different types of governments. However, a common definition of endowments is not found in practice. As a guideline in applying this Statement, the Board considered definitions established in the NACUBO *College and University Business Administration Desk Reference*. NACUBO has identified three categories of endowments: true (permanent) endowments, term endowments, and funds functioning as endowments (quasi-endowments). In permanent and term endowments, the principal is required to be maintained in perpetuity, or for a stated period of time or until the occurrence of a certain event, respectively. The scope of this Statement covers both permanent and term endowments. Although the Board did not adopt these definitions, they may be helpful in applying this Statement.

14. Paragraph 65 of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, states that “permanent funds should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs—that is, for the benefit of the government or its citizenry” (footnote reference omitted). For the purposes of this Statement, the Board believes that permanent funds should receive treatment similar to permanent or term endowments because restrictions on the use of the funds require them to function essentially like permanent or term endowments.

15. By contrast, quasi-endowments are established by a governing board to function *like* an endowment. However, because different types of governments engage in various activities that could be considered quasi-endowments and those activities present

additional reporting issues, those activities are beyond the scope of this Statement and are, therefore, excluded. Respondents to the Exposure Draft generally agreed with the exclusion of quasi-endowments from the scope of the project.

## **Valuation and Reporting**

16. Endowments perform investment functions that are similar to pension plans, OPEB plans, external investment pools, and Internal Revenue Code Section 457 deferred compensation plans. GASB standards require those plans and pools to report the fair value of their land and other real estate held as investments. Accordingly, the Board believes that endowments also should report land and other real estate held as investments at fair value. Paragraphs 91–93 of the Basis for Conclusions of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, explain some of the reasons for reporting at fair value as follows:

The Board believes that the financial statements should focus on providing information, from a stewardship perspective, about the pension plan as a *fund* (resources). The Board rejected historical cost because the price paid for an investment does not provide the most relevant information from a stewardship perspective. Stewardship comprises not only the safekeeping of assets but also the effective use of assets in order to generate additional resources. Investment performance is an essential element of stewardship responsibility.

Fair value provides the most relevant information about the composition, value, and recent changes in the value of a pension fund. Fair value eliminates reporting identical and interchangeable securities at different amounts merely because they were acquired at different times. Reporting changes in fair value provides information necessary for assessing investment performance, including the results of holding as well as selling investments.

Historical cost provides information on investment results only in the year the investments are sold. The Board believes that changes in fair value should be included as a component of net investment income in the year they occur. They are as relevant as other earnings on investments, such as dividends and interest, to assessments of investment management and performance and the financial position of the fund. A pension fund is in a better financial position when investment values increase and a worse

position when they decline. From that perspective, failure to include changes in fair value in net investment income results in a misstatement of the year-to-year changes in plan net assets. The Board also notes that reporting at fair value eliminates the potential for distortions of investment income caused by timing investment sales to produce a particular result.

17. Paragraph 56 of Statement 31 addresses reporting fair value changes as follows:

[T]he Board does not believe that the nature of fair value changes is intrinsically different from, nor should it be separated from, other elements of investment income . . . .The Board believes that financial reporting about investments is improved when the statement of activities reflects the results of those events and transactions. Those results arise not only from interest and dividend income and from sales of investments, but also from changes in the fair value of the investments during the holding period. The Board believes that different recognition standards for realized and unrealized changes in fair value would undermine the validity of a fair value measurement. Reporting only realized gains and losses in the statement of activities is a historical-cost concept, which provides information on investment results only in the year investments are sold. Changes in fair value should be included as part of the year's activities when they occur because they are as relevant as other earnings on investments, such as dividends and interest, to assessments of investment management and performance and financial position. A government is in a better financial position when investment values increase and a worse position when they decline. The Board also notes that reporting at fair value eliminates the potential that the timing of investment sales to produce a particular result will distort investment income.

18. Respondents to the Exposure Draft generally agreed with fair value reporting for investments in land and other real estate held by endowments. Some respondents requested that the Board provide additional guidance on methods and significant assumptions that are appropriate for determining fair value. The fair value of real estate investments often is determined by a periodic appraisal of the property by a certified real estate appraiser. In periods in which an appraisal is not obtained, governments should consider the extent to which changes in the real estate market may have affected the value of its properties since the last appraisal and adjust the reported fair value accordingly. Further, some entities use other methods to determine the fair value of real estate—for

example, an estimate of fair value based on the present value of estimated expected future cash flows.

19. The Board notes that there are many factors that can be considered when estimating the fair value of land and other real estate, making the estimation of fair value dependent on the unique facts and circumstances of the specific land or other real estate. Therefore, the Board did not believe that a global methodology, or even alternative methodologies, for estimating the fair value of land and other real estate should be developed for this Statement. The Board notes that methods and significant assumptions should consider cost-benefit constraints.

### **Disclosures**

20. This Statement amends the scope of Statement 31 to apply the disclosure provisions of paragraph 15 of that Statement to land and other real estate held as investments by endowments. Accordingly, endowments should disclose “the methods and significant assumptions used to estimate the fair value of investments, if that fair value is based on other than quoted market prices.” These are the disclosure provisions that already apply to investments in real estate held by external investment pools. The Board believes that these disclosures are appropriate and sufficient.

### **Effective Date and Transition**

21. This Statement is effective for financial statements for periods beginning after June 15, 2008. Given the limited scope of this Statement, the Board believes the effective date allows sufficient time for implementation. Some governments may wish to implement earlier than that date. Accordingly, this Statement encourages early application.

## Appendix C

### CODIFICATION INSTRUCTIONS

22. The sections that follow update the June 30, 2007, *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number of this Statement is listed if the paragraph will be cited in full in the *Codification*.

\* \* \*

#### GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND LEGAL COMPLIANCE

#### SECTION 1200

.115 [Update cross-references.]

\* \* \*

#### FUND ACCOUNTING

#### SECTION 1300

.112 [Update cross-references.]

\* \* \*

#### INVESTMENTS

#### SECTION 150

Sources: [Add the following:] GASB Statement 52

.101 [Add new subparagraph f, including footnote, as follows; renumber subsequent footnotes.] Land and other real estate held by endowments, including permanent and term endowments, and permanent funds.<sup>3</sup>

[Insert the following sentence after the first sentence following subparagraph f:] In addition, endowments and permanent funds also should apply the applicable disclosure provisions in paragraph .120 to their land and other real estate held as investments.

[GASBS 31, ¶1; GASBS 31, ¶2, as amended by GASBS 32, ¶5, and GASBS 52, ¶4; GASBS 52, ¶5]

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<sup>3</sup>This provision does not apply to quasi-endowments or lands granted by the Federal government in connection with a state being admitted to the United States. [GASBS 52, ¶2]

\* \* \*

[Insert new paragraph .106 as follows; renumber subsequent paragraphs and update cross-references throughout section.]

.106 [GASBS 52, ¶4]

\* \* \*

**INVESTMENTS—SECURITIES LENDING**

**SECTION I60**

.114 [Update cross-references.]

\* \* \*

**INVESTMENT POOLS (EXTERNAL)**

**SECTION In5**

.102 [Update cross-references.]

\* \* \*

**PENSION PLANS—DEFINED BENEFIT**

**SECTION Pe5**

.116 [Update cross-references.]

\* \* \*

**PUBLIC ENTITY RISK POOLS**

**SECTION Po20**

.145 [Update cross-references.]

\* \* \*

**POSTEMPLOYMENT BENEFIT PLANS  
OTHER THAN PENSION PLANS—DEFINED BENEFIT**

**SECTION Po50**

.118 [Update cross-references.]