|  |  |
| --- | --- |
| **Property Address:** |  |
| **Property Description:** |  |
| **Date Acquired:** |  |

**Step 1: Complete the questions below**

|  |  |  |
| --- | --- | --- |
|  | **No** | **Yes** |
| Is the property on, near or close to University owned or occupied property (i.e. campus, medical center, Office of the President)?  | [ ]  Property is **NOT** close to a University owned or occupied property  | [ ]  Property is close to a University owned or occupied property  |
| Is there any portion of the property currently used by the University? | [ ]  Property is **NOT** currently used by the University | [ ]  Property is currently used by the University |
| Is the property connected to the University’s mission of teaching, research, clinical care or public service? (i.e., apartments for student housing, facilities with classroom space or physician office buildings) | [ ]  Property is **NOT** connected to the University’s mission | [ ]  Property is connected to the University’s mission |

If the answer is **“yes”** to **any** of the questions above, proceed to **Step 2, below**.

If the answer is **“no”** to **all** of the questions above, property is indicated as an **investment**. Proceed to **Step 3, below.**

**Step 2: Complete the questions below**

|  | **Investment Indicators** | **Indicators that do not support either Capital Asset or Investment** | **Capital Asset Indicators** |
| --- | --- | --- | --- |
| Is the property being acquired for operations or for profit? | [ ]  The property is being acquired only for income/profit | [ ]  While the property is being acquired for income; use by the University is planned | [ ]  The property is being acquired for use by the University |
| Is the property being considered for purchase because either the location, service capacity or economics are dependent on the University’s use of the property? | [ ]  No | [ ]  Possibly  | [ ]  Yes |
| What is the University’s current or planned future use of the property? | [ ]  None or less than 20% use by the University | [ ]  Between 20% and 50% use by the University | [ ]  Over 50% use by the University |
| Are there construction or renovation plans to accommodate use of property by the University? | [ ]  There are no plans to renovate the property to accommodate use of property by the University | [ ]  There are potential plans to renovate the property to accommodate use of property by the University | [ ]  There are plans to renovate the property to accommodate use of property by the University |
| If University use is contemplated, what is the planned timing for the arrangements with the campus or medical center?  | [ ]  Not applicable or more than 5 years after the property is acquired | [ ]  Between 2 and 5 years after the property is acquired | [ ]  Less than 2 years after the property is acquired |
| What is the expected or planned term of the University’s use of the property?  | [ ]  Not applicable or short term arrangement, i.e. less than 2 years | [ ]  Medium term arrangement, i.e. between 2 and 5 years | [ ]  Long term arrangement, i.e. 5 years or more |
| What proportion of the property will the University be using (occupancy % or number of beds)? | [ ]  Less than 20% of the property | [ ]  Between 20% and 50% of the property | [ ]  Over 50% of the property |
| What rental rates will the University pay for use of the property? | [ ]  Market rates | [ ]  Limitations on rent increases such as CPI | [ ]  Promise for less than market rates |
| Are there any other plans to involve a campus or medical center in the operations of the property (i.e. through a master lease or management contract)?Any other structuring considerations? | [ ]  Campus is not involved in operations of the property and has no influence over the decisions related to the property, i.e. budget, rental rates, design, renovations, etc. | [ ]  Campus is somewhat involved in the operations of the property and can influence decisions related to the operations of the property, such as budget, rental rates, design, renovations, etc. | [ ]  Campus is managing the property and has significant input into decisions related to the operations of the property, such as budget, rental rates, renovations, etc. |

**Step 3 - Conclusion:**

|  |  |  |
| --- | --- | --- |
| Based on the above analysis and indicators, property is classified as a(n): | [ ]  Investment | [ ]  Capital Asset |

Comments:

|  |  |
| --- | --- |
| **Prepared by:**  | **Approved by:**  |
| **Date Prepared:**  | **Date Approved:** |

**Excerpts from GASB 72 for Reference:**

**Present Service Capacity**

65. Investments indirectly enable a government to provide services. Assets are resources with present service capacity that a government presently controls. Present service capacity refers to a government’s mission to provide services. While capital assets provide services directly, investments do not. Rather, investments are valuable to a government because investments can be used to pay for goods or services that in turn are used to provide services directly to its citizens. For example, if converted to cash, an investment may allow a government to acquire or construct a capital asset, such as a bridge. The bridge is used to provide services to the government’s constituency.

**Held Primarily for Income or Profit**

66. A government acquires an investment with the expectation of future income or profit. Evidence that a government holds an asset for income or profit also may be found in the fund that reports the asset. For example, income producing real property in a pension plan suggests that the asset is held primarily for income or profit.

**Present Service Capacity Based Solely on an Asset’s Ability to Generate Cash or to Be Sold to Generate Cash**

67. Certain financial instruments may generate cash to finance the provision of services. However, the fact that a financial instrument generates cash does not, in itself, mean that it is an investment. For example, mortgage loans are not investments if the loans arise from a government’s program that extends financing to first-time homebuyers. The present service capacity of the loans is not based solely on the loans’ ability to generate cash.

**Purpose Determined by a Government at Acquisition**

68. The determination of whether an asset is held primarily for the purpose of income or profit or whether its present service capacity is based solely on its ability to generate cash or to be sold to generate cash is based on actions by a government’s management at acquisition. Once the government determines whether the asset is an investment or another type of asset, the classification should be retained for financial reporting purposes, even if the government’s usage of the asset changes over time. For example, an asset that is initially reported as a capital asset and later is held for sale should not be reclassified as an investment.

**Definition of an Investment**

B43. In conjunction with its deliberations regarding fair value, the Board evaluated the definition of an investment. The Board believes that a government acquires an investment asset primarily for future income or profit and the asset’s present service capacity is based solely on its ability to generate cash or to be sold to generate cash.

**Held Primarily for Income or Profit**

B45. The explanation of the definition of an investment states that “a government acquires an investment with the expectation of future income or profit” (paragraph 66 of this Statement; emphasis added). A respondent to the Exposure Draft questioned whether this language implies that an asset should be reclassified if the purpose of holding the asset changes from the time of acquisition. The respondent also requested that the Board clarify whether the expectation of income or profit is determined only at acquisition of the asset. In the Board’s view, when a government acquires an asset, it should use the definition of an investment to determine whether the asset meets that definition and, therefore, whether it should be classified as an investment. Once the determination is made at the time of acquisition, the classification of the asset should carry forward as long as the asset is held by the government regardless of any changes in management’s usage of the asset.

**Investments or Capital Assets**

B46. Some respondents to the Preliminary Views were concerned that an asset could simultaneously meet the existing definition of a capital asset and the definition of an investment. In paragraph 19 of Statement 34, as amended, capital assets are defined as “land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.” An example of a type of tangible asset that could be classified as a capital asset and an investment at the same time is an apartment building held for income by a pension plan or an endowment. In the Board’s view, for the asset in that example to meet the definition of a capital asset and the definition of an investment simultaneously, it would require one to believe that a pension plan or endowment’s operation is characterized as managing an apartment building. However, different governments holding similar assets may arrive at different classifications based on the usage of the asset and the purpose of the government. For example, a warehouse used by a public transit district to store vehicles and equipment would be classified as a capital asset for the district. A similar warehouse held by a pension plan as income producing property that is rented to a private party would be classified as an investment.

B47. Based on comments received from respondents to the Preliminary Views, the Board considered the notion of a “mixed-use” or “multi-use” asset. An example of a mixed-use asset is a city hall in a downtown area, in which the first floor is rented to retail stores by the city to generate rental income, and the remainder of the building is occupied by the city for its day-to-day operations. Some respondents believe that a mixed-use asset meets the definition of both a capital asset and an investment simultaneously. In the Board’s view, the application of unit of account should be applied to address this issue. First, the city would determine at initial recognition of the building whether the unit of account is one asset (the entire building) or two assets (the government space and the rental space). Then, the city would determine whether the asset(s) recognized should be classified as a capital asset or an investment. Furthermore, the Board concluded that the city should maintain the classification made at the acquisition of the asset throughout its life. That is, if at acquisition, the city determines that the entire building is one unit of account and a capital asset, the classification should continue for financial reporting purposes even if the city later decides to rent an additional portion of the building. While the space rented is used to generate income, the primary purpose of the building, established at acquisition, is to provide office space for the city.